INDEPENDENT SCHOOL DISTRICT NO. 139
RUSH CITY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2015

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INDEPENDENT SCHOOL DISTRICT NO. 139

Table of Contents

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 139

School Board and Administration
Year Ended June 30, 2015

SCHOOL BOARD

Board of Education	Term Expires	Position
Stefanie Folkema	December 31, 2015	Chairperson
Scott Tryon	December 31, 2015	Vice Chairperson
Brenda Nessel	December 31, 2015	Clerk
Teri Umbreit	December 31, 2017	Treasurer
Scott Anderson	December 31, 2017	Director
Matt Perreault	December 31, 2017	Director

ADMINISTRATION

Vern Koepp	Superintendent
Laureen Frost	Business Manager

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 139
Rush City, 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. 139 (the District) 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.

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position 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.

EMPHASIS OF MATTER

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, during the year ended June 30, 2015. 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 and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

(continued)

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Comparative Information

We have previously audited the District's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 28, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 23, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 23, 2015

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This section of Independent School District No. 139's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2015 by $1,990,593 (net position). The District's total net position increased by $313,173 during the fiscal year ended June 30, 2015, exclusive of the change in accounting principle reported in the current year as discussed below.

- The District recorded a change in accounting principle in the current year for reporting the District's participation in the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) pension plans. This change reduced beginning net position in the government-wide statements by $5,214,032.

- Government-wide revenues totaled $10,356,370 and were $313,173 more than expenses of $10,043,197.

- The General Fund's total fund balance (under the governmental fund presentation) decreased $97,879 from the prior year, compared to a $207,240 decrease planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;

- Management's Discussion and Analysis;

- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;

- Required supplementary information; and

- Supplemental information consisting of combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) 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, except for the fiduciary funds. 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 financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

– Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

– To assess the overall health of the District requires consideration of additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called nonmajor funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

Table 1
Summary Statement of Net Position
as of June 30, 2015 and 2014

	2015	2014
Assets		
Current and other assets	$ 6,604,594	$ 6,482,111
Capital assets, net of depreciation	18,000,711	18,569,495
Total assets	**$ 24,605,305**	**$ 25,051,606**
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	**$ 780,245**	**$ –**
Liabilities		
Current and other liabilities	$ 1,011,643	$ 897,901
Long-term liabilities, including due within one year	18,975,062	15,450,465
Total liabilities	**$ 19,986,705**	**$ 16,348,366**
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 2,036,687	$ 1,811,788
Pension plan deferments – PERA and TRA	1,371,565	–
Total deferred inflows of resources	**$ 3,408,252**	**$ 1,811,788**
Net position		
Net investment in capital assets	$ 5,280,035	$ 4,930,961
Restricted	1,038,644	1,086,500
Unrestricted	(4,328,086)	873,991
Total net position	**$ 1,990,593**	**$ 6,891,452**

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term severance, pension, and other post-employment benefits, which impacts the unrestricted portion of net position.

Total net position decreased by $4,900,859, which reflects an increase of $313,173 from current year operating results, while the change in accounting principle mentioned earlier reduced unrestricted net position by $5,214,032. This change in accounting principle for pensions significantly increased deferred outflows of resources, long-term liabilities, and deferred inflows of resources, as presented in the table above.

The District's increase in net investment in capital assets is due mostly to the District repaying debt at a faster rate than the assets being depreciated. A decrease in net position restricted for capital asset acquisition and food service contributed to the reduction in the restricted portion of net position. The decrease in unrestricted net position was primarily due to the change in accounting principle previously discussed.

Table 2 presents a summarized version of the District's Statement of Activities:

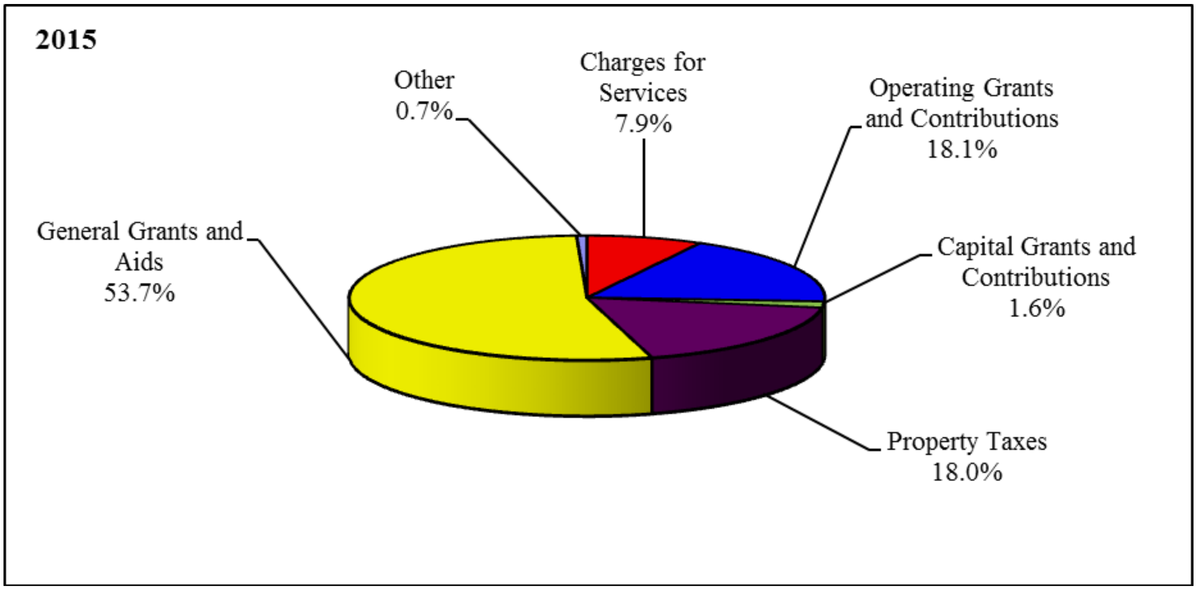
Table 2
Summary Statement of Activities
Years Ended June 30, 2015 and 2014

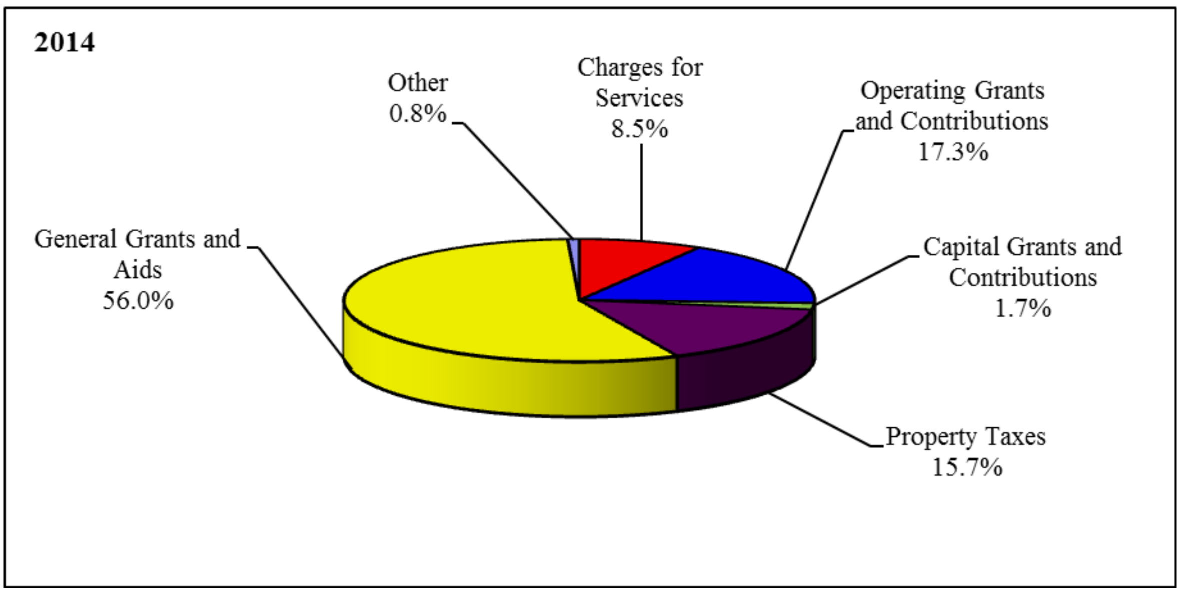
	2015	2014
Revenues		
Program revenues		
Charges for services	$ 821,820	$ 836,251
Operating grants and contributions	1,876,738	1,707,355
Capital grants and contributions	168,350	167,378
General revenues		
Property taxes	1,863,010	1,542,452
General grants and aids	5,557,512	5,508,789
Other	68,940	80,919
Total revenues	10,356,370	9,843,144
Expenses		
Administration	600,096	597,999
District support services	277,481	258,709
Elementary and secondary regular instruction	3,763,628	3,679,419
Vocational education instruction	129,370	142,725
Special education instruction	1,389,563	1,399,107
Instructional support services	590,554	508,868
Pupil support services	535,639	561,050
Sites and buildings	690,257	1,040,400
Fiscal and other fixed cost programs	46,110	40,991
Food service	400,356	404,223
Community service	421,727	465,521
Depreciation not included in other functions	684,227	692,820
Interest and fiscal charges	514,189	534,262
Total expenses	10,043,197	10,326,094
Change in net position	313,173	(482,950)
Net position – beginning, as previously reported	6,891,452	7,374,402
Change in accounting principle	(5,214,032)	–
Net position – beginning, as restated	1,677,420	7,374,402
Net position – ending	$ 1,990,593	$ 6,891,452

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2015 and 2014





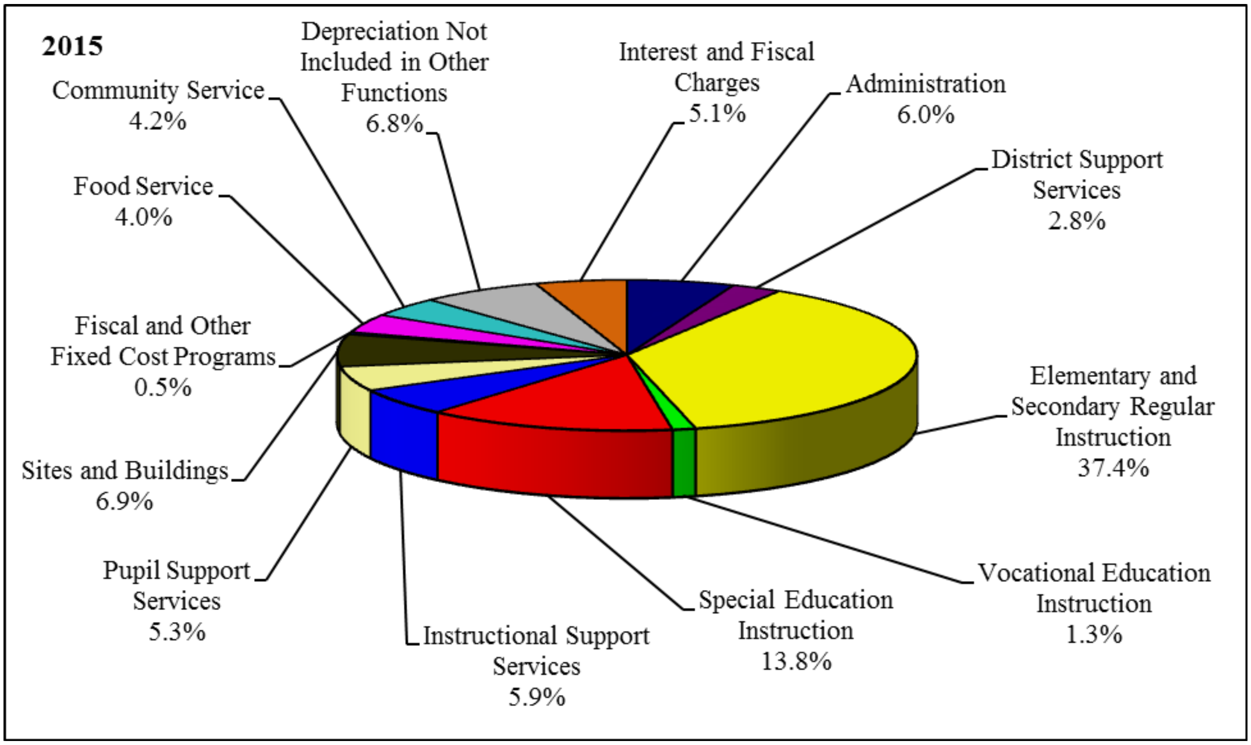
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants. This significant reliance on the state for funding has placed pressure on local school districts as a result of limited funding increases in recent years.

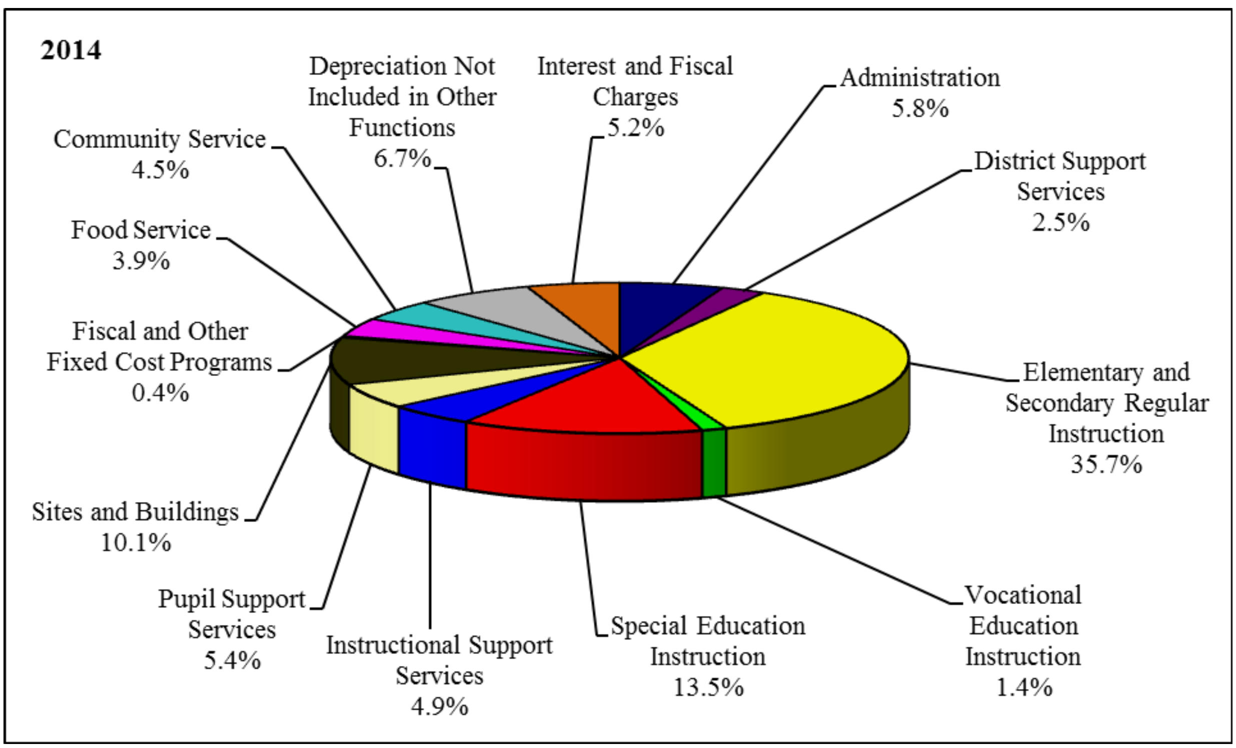
Property taxes are generally the next largest source of funding. The level of revenue property tax sources provide is not only dependent on district taxpayers by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The proportionate share of district revenue from these two sources may change significantly between fiscal years, due to the "tax shift." The tax shift is an accounting tool used on occasion to balance the state budget, whereby districts recognize cash collections for the subsequent year's property tax levy as current year revenue, and the state adjusts aid payments to districts by an equal amount.

Figure B shows further analysis of these expense functions:

Figure B – Expenses for Fiscal Years 2015 and 2014





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances of $1,814,715, a decrease of $82,862 from the previous year. This decrease was primarily in the General Fund as discussed below.

The General Fund total fund balance decreased from $925,965 at June 30, 2014 to $828,086 at June 30, 2015; a decrease of $97,879. This decrease was planned as approved by the School Board in the final adopted budget. The operating capital restriction decreased to zero from a prior year-end balance of $47,467, while the restriction for health and safety increased $26,331 to an ending deficit net position balance of $107,641.

The Debt Service Fund equity balance is entirely restricted to pay bonded obligations of the District. The overall fund balance of the Debt Service Fund increased by $5,139 in the current year. The remaining fund balance of $307,267 at June 30, 2015 is available for meeting future debt service obligations.

The Permanent Fund, used to account for the District's Aquatic Center contributions, experienced a slight fund balance decrease of $230. Expenditures were more than investment earnings in the current year. Expenditures represent the prior year's investment earnings that are made available in October of each year, while revenue reflects the current year's investment earnings. The Permanent Fund ended the year with a total fund balance of $513,100.

The Food Service Special Revenue Fund reported $14,636 more in expenditures than revenues, decreasing the fund balance to $106,490. The Community Service Special Revenue Fund experienced an increase in fund balance of $24,744 after receiving a $54,870 transfer from the General Fund, ending the year with a total fund balance of $59,772.

General Fund Budgetary Points of Interest

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District amended that budget for known changes in circumstances such as updated enrollment levels, legislative funding, additional funding received from grants or other local sources, staffing changes, insurance premium changes, special education tuition changes, and employee contract settlements. The original budget anticipated an increase in year-end fund balance of $51,973, while the final amended budget anticipated a reduction of $207,240 in year-end fund balance.

The General Fund actual operating results were favorable compared to budget projections, with equity ending the year $109,361 more than the ending projected amounts. Total revenues and other financing sources were $21,253 more than the budgeted amount of $8,321,097. Favorable variances in property taxes and other local sources contributed to actual revenues surpassing amounts anticipated in the final budget. General Fund programs experienced favorable expenditure variances with most programs ending the year under the total amounts approved in the final budget. Total General Fund expenditures and other financing uses were $88,108 below the budgeted amount of $8,528,337.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

The following table shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ended June 30, 2015 and 2014.

Table 3
Capital Assets

	2015	2014	Change
Land	$ 235,734	$ 235,734	$ –
Construction in progress	47,175	–	47,175
Land improvements	1,361,295	1,361,295	–
Buildings	26,396,459	26,327,885	68,574
Furniture and equipment	4,148,844	4,137,912	10,932
Less accumulated depreciation	(14,188,796)	(13,493,331)	(695,465)
Total	$ 18,000,711	$ 18,569,495	$ (568,784)
Depreciation expense	$ 902,560	$ 907,478	$ (4,918)

By the end of 2015, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 3).

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2015. The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year.

Long-Term Liabilities

Table 4 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 4
Outstanding Long-Term Liabilities

	2015	2014	Change
General obligation bonds payable	$ 12,750,000	$ 13,635,000	$ (885,000)
Unamortized premium/discount	(29,322)	(29,231)	(91)
Capital leases payable	1,658,886	1,805,196	(146,310)
Net pension liability – PERA*	1,261,899	–	1,261,899
Net pension liability – TRA*	3,278,099	–	3,278,099
Separation benefits payable	55,500	39,500	16,000
Total	$ 18,975,062	$ 15,450,465	$ 3,524,597

*Reflects current year change in accounting principle; prior year balances were not restated.

The decrease in general obligation bonds payable and capital leases payable was a result of scheduled debt payments made in the current year.

As previously discussed, the District recorded a change in accounting principle in the current year for reporting the District's participation in the PERA and TRA pension plans. Information needed to restate previous periods was not readily available; therefore, prior period amounts were not restated.

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS 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 federal No Child Left Behind legislation and related state legislation continues to impact school finance nation-wide. The legislation is intended to assure that every child reaches specific achievement levels, regardless of subgroup classification based on poverty, ethnicity, and regular or special education. While the intended consequences of these laws are to raise achievement, there are many unintended results, including reallocation of resources in addition to potential increases in expenditures for new programming, curriculum, instruction, and remediation. Furthermore, for many districts, additional costs could be accrued for collection and analysis of data, school choice transportation, support services, and administrative costs related to implementation of the laws. While it is impossible to predict actual costs, it is clear that districts with transient populations, high poverty, and more students in the various subgroups will have the most challenges.

- The inability of Congress to agree on educational funding or the reauthorization of the Elementary and Secondary Education Act, and the potential reduction of federal education funding as a way to control federal spending, creates an uncertain revenue picture going forward for federal education revenue. However, this has minimum impact on the District's budget since approximately 2 percent of the General Fund revenue is federal dollars.

- Economic indicators have improved for Minnesota and revenue for state initiatives has increased recently. The state has repaid funding shifts that had a negative impact on cash flow for schools and returned to the practice of paying 90 percent of the current year allocation. While this does not increase revenue, it improves cash flow for the District. While state educational funding has increased in recent years, it remains behind inflationary increases to services, equipment, and supplies purchased by schools.

- Unfunded special education mandates continue to increase costs to the District's General Fund.

- After three years of modest increases to enrollment, enrollment declined during 2013–2014 and again in the 2014–2015 school year. Enrollment directly impacts revenue. At the time of this report, the enrollment for 2015–2016 is increased by 26 students, or 3.1 percent, over the 2014–2015 school year.

- The School Board approved a five-year resolution for a $300 operating referendum per pupil with the Pay 2014 levy, which will continue in 2015–2016. For the Pay 2015 levy, the School Board had authority to approve an additional $424 local other revenue (LOR). The School Board choose to levy $300; this revenue will be recognized in budget year 2015–2016. For the Pay 2016 levy, the School Board has proposed to levy the full amount allowed of $424 per pupil. This additional $124 will be recognized in budget year 2016–2017; therefore, total LOR recognized in 2016–2017 will be $424 per pupil.

- The District has purposefully spent down its fund balance in recent years to complete several large capital projects.

- The District has relatively good fund balances.

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. In the 2015 fiscal year, several funding and pupil weighting changes went into effect, which included an equivalent increase of $105, or 2.0 percent, for the basic general education formula funding. The Legislature has added $117, or 2.0 percent, per pupil to the formula for fiscal year 2016 and an additional $119, or 2.0 percent, per pupil to the formula for fiscal year 2017. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact the Business Manager and/or the Superintendent, Independent School District No. 139, 51001 Fairfield Avenue, P.O. Box 566, Rush City, Minnesota 55069.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Net Position
as of June 30, 2015
(With Partial Comparative Information as of June 30, 2014)

	Governmental Activities	
	2015	2014
Assets		
Cash and temporary investments	$ 2,946,290	$ 2,686,520
Receivables		
Current taxes	1,220,464	1,083,150
Delinquent taxes	111,920	135,486
Accounts and interest	7,741	37,699
Due from other governmental units	2,152,980	2,369,423
Inventory	6,246	7,158
Negative net other post-employment benefit obligations	158,953	162,675
Capital assets		
Not depreciated	282,909	235,734
Depreciated, net of accumulated depreciation	17,717,802	18,333,761
Total capital assets, net of accumulated depreciation	18,000,711	18,569,495
Total assets	24,605,305	25,051,606
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	780,245	–
Total assets and deferred outflows of resources	$ 25,385,550	$ 25,051,606
Liabilities		
Salaries payable	$ 840	$ 7,746
Accounts and contracts payable	820,014	683,459
Accrued interest payable	188,212	195,282
Due to other governmental units	–	6,809
Unearned revenue	2,577	4,605
Long-term liabilities		
Due within one year	1,077,440	1,070,810
Due in more than one year	17,897,622	14,379,655
Total long-term liabilities	18,975,062	15,450,465
Total liabilities	19,986,705	16,348,366
Deferred inflows of resources		
Property taxes levied for subsequent year	2,036,687	1,811,788
Pension plan deferments – PERA and TRA	1,371,565	–
Total deferred inflows of resources	3,408,252	1,811,788
Net position		
Net investment in capital assets	5,280,035	4,930,961
Restricted for		
Capital asset acquisition	–	47,467
Food service	106,490	121,126
Community service	63,186	39,055
OPEB benefits	158,953	162,675
Debt service	196,915	202,847
Permanent Fund		
Expendable	2,100	4,330
Nonexpendable	511,000	509,000
Unrestricted	(4,328,086)	873,991
Total net position	1,990,593	6,891,452
Total liabilities, deferred inflows of resources, and net position	$ 25,385,550	$ 25,051,606

See notes to basic financial statements

Statement of Activities
Year Ended June 30, 2015
(With Partial Comparative Information for the Year Ended June 30, 2014)

	2015					2014
		Program Revenues			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities						
Administration	$ 600,096	$ –	$ 567	$ –	$ (599,529)	$ (597,999)
District support services	277,481	207,423	60	–	(69,998)	(73,795)
Elementary and secondary regular instruction	3,763,628	122,166	936,119	–	(2,705,343)	(2,755,125)
Vocational education instruction	129,370	–	8,352	–	(121,018)	(131,959)
Special education instruction	1,389,563	–	575,934	–	(813,629)	(896,551)
Instructional support services	590,554	36,385	436	–	(553,733)	(470,189)
Pupil support services	535,639	3,212	240	–	(532,187)	(555,445)
Sites and buildings	690,257	–	137,642	168,350	(384,265)	(747,386)
Fiscal and other fixed cost programs	46,110	–	–	–	(46,110)	(40,991)
Food service	400,356	185,037	201,216	–	(14,103)	7,080
Community service	421,727	267,597	16,172	–	(137,958)	(125,668)
Depreciation not included in other functions	684,227	–	–	–	(684,227)	(692,820)
Interest and fiscal charges	514,189	–	–	–	(514,189)	(534,262)
Total governmental activities	$ 10,043,197	$ 821,820	$ 1,876,738	$ 168,350	(7,176,289)	(7,615,110)
	General revenues					
	Taxes					
	Property taxes, levied for general purposes				595,126	286,825
	Property taxes, levied for community service				57,648	30,297
	Property taxes, levied for debt service				1,210,236	1,225,330
	General grants and aids				5,557,512	5,508,789
	Other general revenues				58,498	70,090
	Investment earnings				10,442	10,829
	Total general revenues				7,489,462	7,132,160
	Change in net position				313,173	(482,950)
	Net position – beginning, as previously reported				6,891,452	7,374,402
	Change in accounting principle				(5,214,032)	–
	Net position – beginning, as restated				1,677,420	7,374,402
	Net position – ending				$ 1,990,593	$ 6,891,452

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 139

Balance Sheet
Governmental Funds
as of June 30, 2015
(With Partial Comparative Information as of June 30, 2014)

	General Fund	Debt Service Fund	Permanent Fund
Assets			
Cash and temporary investments	$ 1,395,356	$ 811,867	$ 513,100
Receivables			
Current taxes	427,249	757,054	–
Delinquent taxes	30,646	77,860	–
Accounts and interest	6,604	–	–
Due from other governmental units	2,135,271	12,908	–
Inventory	–	–	–
Total assets	$ 3,995,126	$ 1,659,689	$ 513,100
Liabilities			
Salaries payable	$ 840	$ –	$ –
Accounts and contracts payable	774,728	–	–
Due to other governmental units	–	–	–
Unearned revenue	540	–	–
Total liabilities	776,108	–	–
Deferred inflows of resources			
Unavailable revenue – long-term receivable	1,658,888	–	–
Unavailable revenue – delinquent taxes receivable	30,646	77,860	–
Property taxes levied for subsequent year	701,398	1,274,562	–
Total deferred inflows of resources	2,390,932	1,352,422	–
Fund balances			
Nonspendable	–	–	511,000
Restricted	–	307,267	2,100
Assigned	61,781	–	–
Unassigned	766,305	–	–
Total fund balances	828,086	307,267	513,100
Total liabilities, deferred inflows of resources, and fund balances	$ 3,995,126	$ 1,659,689	$ 513,100

See notes to basic financial statements

Other Funds	Total Governmental Funds 2015	Total Governmental Funds 2014
$ 225,967	$ 2,946,290	$ 2,686,520
36,161	1,220,464	1,083,150
3,414	111,920	135,486
1,137	7,741	37,699
4,801	2,152,980	2,369,423
6,246	6,246	7,158
$ 277,726	$ 6,445,641	$ 6,319,436
$ –	$ 840	$ 7,746
45,286	820,014	683,459
–	–	6,809
2,037	2,577	4,605
47,323	823,431	702,619
–	1,658,888	1,772,431
3,414	111,920	135,021
60,727	2,036,687	1,811,788
64,141	3,807,495	3,719,240
6,246	517,246	516,158
160,016	469,383	502,921
–	61,781	10,500
–	766,305	867,998
166,262	1,814,715	1,897,577
$ 277,726	$ 6,445,641	$ 6,319,436

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INDEPENDENT SCHOOL DISTRICT NO. 139

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2015
(With Partial Comparative Information as of June 30, 2014)

	2015	2014
Total fund balances – governmental funds	$ 1,814,715	$ 1,897,577
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	32,189,507	32,062,826
Accumulated depreciation	(14,188,796)	(13,493,331)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(12,750,000)	(13,635,000)
Unamortized premium/discount	29,322	29,231
Capital leases payable	(1,658,886)	(1,805,196)
Net pension liability – PERA	(1,261,899)	–
Net pension liability – TRA	(3,278,099)	–
Separation benefits payable	(55,500)	(39,500)
Net other post-employment benefit obligations reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.	158,953	162,675
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(188,212)	(195,282)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	780,245	–
Deferred inflows – PERA and TRA pension plans	(1,371,565)	–
Deferred inflows – long-term receivable	1,658,888	1,772,431
Deferred inflows – delinquent taxes receivable	111,920	135,021
Total net position – governmental activities	$ 1,990,593	$ 6,891,452

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015
(With Partial Comparative Information for the Year Ended June 30, 2014)

	General Fund	Debt Service Fund	Permanent Fund
Revenue			
Local sources			
Property taxes	$ 599,473	$ 1,228,377	$ –
Investment earnings	5,173	1,497	2,929
Other	541,227	–	–
State sources	7,043,958	129,079	–
Federal sources	144,164	–	–
Total revenue	8,333,995	1,358,953	2,929
Expenditures			
Current			
Administration	603,512	–	–
District support services	277,859	–	–
Elementary and secondary regular instruction	3,677,906	–	–
Vocational education instruction	124,940	–	–
Special education instruction	1,399,662	–	–
Instructional support services	585,699	–	–
Pupil support services	613,841	–	–
Sites and buildings	856,984	–	–
Fiscal and other fixed cost programs	46,110	–	–
Food service	–	–	–
Community service	–	–	3,159
Capital outlay	–	–	–
Debt service			
Principal	146,310	885,000	–
Interest and fiscal charges	52,536	468,814	–
Total expenditures	8,385,359	1,353,814	3,159
Excess (deficiency) of revenue over expenditures	(51,364)	5,139	(230)
Other financing sources (uses)			
Sale of capital assets	8,355	–	–
Transfers in	–	–	–
Transfers (out)	(54,870)	–	–
Total other financing sources (uses)	(46,515)	–	–
Net change in fund balances	(97,879)	5,139	(230)
Fund balances			
Beginning of year	925,965	302,128	513,330
End of year	$ 828,086	$ 307,267	$ 513,100

See notes to basic financial statements

Other Funds	Total Governmental Funds 2015	Total Governmental Funds 2014
$ 58,261	$ 1,886,111	$ 1,562,468
843	10,442	10,829
452,634	993,861	1,016,585
96,405	7,269,442	7,034,405
178,937	323,101	349,117
787,080	10,482,957	9,973,404
–	603,512	596,740
–	277,859	259,561
–	3,677,906	3,602,099
–	124,940	153,330
–	1,399,662	1,397,975
–	585,699	511,469
–	613,841	608,394
–	856,984	1,127,149
–	46,110	40,991
382,766	382,766	393,188
412,616	415,775	457,176
36,460	36,460	37,221
–	1,031,310	1,028,654
–	521,350	551,490
831,842	10,574,174	10,765,437
(44,762)	(91,217)	(792,033)
–	8,355	1,800
54,870	54,870	62,329
–	(54,870)	(62,329)
54,870	8,355	1,800
10,108	(82,862)	(790,233)
156,154	1,897,577	2,687,810
$ 166,262	$ 1,814,715	$ 1,897,577

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INDEPENDENT SCHOOL DISTRICT NO. 139

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2015
(With Partial Comparative Information for the Year Ended June 30, 2014)

	2015	2014
Total net change in fund balances – governmental funds	$ (82,862)	$ (790,233)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	341,080	277,197
Depreciation expense	(902,560)	(907,478)
The change in net other post-employment obligations does not require the use of current financial resources and is not reported in the governmental funds until actually due.	(3,722)	5,011
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(7,304)	(1,069)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	885,000	855,000
Capital leases payable	146,310	173,654
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	7,070	17,137
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	91	91
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability – PERA	200,554	–
Net pension liability – TRA	802,959	–
Separation benefits payable	(16,000)	18,000
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	450,766	–
Deferred inflows – PERA and TRA pension plans	(1,371,565)	–
Deferred inflows – long-term receivable	(113,543)	(110,244)
Deferred inflows – delinquent taxes receivable	(23,101)	(20,016)
Change in net position – governmental activities	$ 313,173	$ (482,950)

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2015
(With Partial Comparative Information for the Year Ended June 30, 2014)

	2015				2014
	Budgeted Amounts			Over (Under)	
	Original	Final	Actual	Final Budget	Actual
Revenue					
Local sources					
Property taxes	$ 522,657	$ 560,093	$ 599,473	$ 39,380	$ 290,908
Investment earnings	5,000	5,000	5,173	173	5,101
Other	513,850	524,050	541,227	17,177	530,780
State sources	7,377,000	7,090,534	7,043,958	(46,576)	6,808,259
Federal sources	155,506	139,420	144,164	4,744	157,870
Total revenue	8,574,013	8,319,097	8,333,995	14,898	7,792,918
Expenditures					
Current					
Administration	616,113	613,284	603,512	(9,772)	596,740
District support services	314,662	301,924	277,859	(24,065)	259,561
Elementary and secondary regular instruction	3,566,277	3,545,830	3,677,906	132,076	3,602,099
Vocational education instruction	145,632	143,357	124,940	(18,417)	153,330
Special education instruction	1,448,267	1,469,020	1,399,662	(69,358)	1,397,975
Instructional support services	598,849	592,502	585,699	(6,803)	511,469
Pupil support services	639,229	649,510	613,841	(35,669)	608,394
Sites and buildings	892,679	900,565	856,984	(43,581)	1,127,149
Fiscal and other fixed cost programs	46,000	43,000	46,110	3,110	40,991
Debt service					
Principal	130,950	130,963	146,310	15,347	173,654
Interest and fiscal charges	77,900	77,900	52,536	(25,364)	58,688
Total expenditures	8,476,558	8,467,855	8,385,359	(82,496)	8,530,050
Excess (deficiency) of revenue over expenditures	97,455	(148,758)	(51,364)	97,394	(737,132)
Other financing sources (uses)					
Sale of capital assets	2,000	2,000	8,355	6,355	1,800
Transfers (out)	(47,482)	(60,482)	(54,870)	5,612	(62,329)
Total other financing sources (uses)	(45,482)	(58,482)	(46,515)	11,967	(60,529)
Net change in fund balances	$ 51,973	$ (207,240)	(97,879)	$ 109,361	(797,661)
Fund balances					
Beginning of year			925,965		1,723,626
End of year			$ 828,086		$ 925,965

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Fiduciary Net Position
as of June 30, 2015

	Scholarship Private-Purpose Trust Fund	Agency Funds
Assets		
Cash and temporary investments	$ 157,676	$ 132,034
Liabilities		
Accounts payable	–	$ 132,034
Net position		
Held in trust for scholarships	$ 157,676	

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2015

	Scholarship Private-Purpose Trust Fund
Additions	
Contributions	$ 17,729
Investment earnings	769
Total additions	18,498
Deductions	
Scholarships	15,699
Change in net position	2,799
Net position	
Beginning of year	154,877
End of year	$ 157,676

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 139 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities; therefore, separate audited financial statements have been issued.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and 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. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not included in other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

The District has a Scholarship Private-Purpose Trust Fund and two agency funds, which are presented in the fiduciary fund financial statements. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

The Scholarship Private-Purpose Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes. Agency funds do not have a measurement focus, but also use the accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The existence of the various district funds has been established primarily by the Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is the District's primary operating fund and accounts for all financial resources except those required to be accounted for in another fund.

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

Permanent Fund – The Permanent Fund accounts for the Aquatic Center's contributions received and held by the District as restricted for pool center operations. Disbursements from the Permanent Fund are made in accordance with the trust agreement.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used primarily to record financial activities of the District's child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Fiduciary Funds

Scholarship Private-Purpose Trust Fund – The Scholarship Private-Purpose Trust Fund is used to account for resources legally held in trust to provide college scholarships for graduating students. There is no requirement that any portion of these resources be preserved as capital.

Agency Funds – The District reports two agency funds as established to account for cash and other assets held by the District as the agent for student activities and for the St. Croix River Education District (SCRED).

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds, excluding the Permanent Fund. The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the balance sheet date.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable and the capital lease receivable from SCRED, reported with due from other governmental units.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $16,111 of the property tax levy collectible in 2015 as revenue to the District in fiscal year 2014–2015. The remaining portion of the taxes collectible in 2015 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District.

J. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost or estimated historical cost. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. 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. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

L. Compensated Absences

1. **Vacation Pay** – The District compensates certain employees upon termination of employment for unused vacation. The full-time employees of the District earn vacation based upon the number of completed years of service. Since teachers do not receive vacation benefits there is not a material vacation liability to accrue as of June 30, 2015.

2. **Sick Pay** – Substantially all district employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of an employee's separation pay upon termination for certain collective bargaining units.

M. Severance (Separation Benefits)

The Teacher Master Agreement provides that certain full-time teachers (based on eligibility criteria, including hired by date) who have completed 20 years of continuous service with the District shall be eligible for a severance payment of up to $24,000, which shall be paid in two equal installments during the school year following the year of retirement. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave.

As of June 30, 2015, $55,500 of separation benefits payable existed, which has been recorded in the Statement of Net Position. Severance payable is recorded as a liability in the government-wide financial statements when earned and it becomes probable it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements when the liability matures due to employee termination.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. State-Wide Pension Plans

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 the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006.

O. 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, difference between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets 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 future periods 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 long-term receivables and property taxes receivable, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. The District has recorded a long-term receivable and delinquent property taxes not collected within 60 days of year-end which 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, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and the difference between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position

In the government-wide fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets –** Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

Q. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's Business Manager and Superintendent are authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

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

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

R. 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, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

S. 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2015.

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2014, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

U. Change in Accounting Principles

During the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. GASB Statement No. 68 included major changes in how employers account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), an employer is required to recognize a liability for its share of the net pension liability provided through the pension plan. An employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources for its share related to pensions. This standard required retroactive implementation, which resulted in the restatement of net position as of June 30 2014. The net position of governmental activities in the government-wide statements as of June 30, 2014 was decreased by $5,214,032. This change reflects the District's proportionate share of the net pension liabilities ($5,543,511 decrease in net position) and related deferred outflows of resources ($329,479 increase in net position) for the PERA and TRA pension plans, which are now reported by employers under current guidance. Certain amounts necessary to fully restate fiscal year 2014 financial information are not determinable; therefore, prior year comparative amounts have not been restated.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Deposits and investments at year-end consist of the following:

Deposits	$	1,853,357
Investments		1,382,643
Total deposits and investments	$	3,236,000

Deposits and investments are presented in the financial statements as follows:

Statement of Net Position		
Cash and temporary investments	$	2,946,290
Statement of Fiduciary Net Position		
Cash and temporary investments		
Scholarship Private-Purpose Trust Fund		157,676
Agency funds		132,034
Total deposits and investments	$	3,236,000

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was $1,853,357 while the balance on the bank records was $2,326,120. At June 30, 2015, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District had the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years		Total
	Rating	Agency	Less Than 1	1 to 5	
Negotiable certificates of deposit	N/A	N/A	$ 248,000	$ 248,000	$ 496,000
Investment pools/mutual funds					
MN Trust Investment Shares Portfolio	AAA	S&P	N/A	N/A	17,100
MN School District Liquid Asset Fund	AAA	S&P	N/A	N/A	869,543
Total investments					$ 1,382,643

N/A – Not Applicable

The Minnesota School District Liquid Asset Fund and the Minnesota Trust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The District's investment in these trusts is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk. At June 30, 2015, the District investment portfolio includes two investments that exceeded 5 percent of total investments: Sallie Mae Bank negotiable certificate of deposit at 17.9 percent and Goldman Sachs Bank negotiable certificate of deposit at 17.9 percent, both of which were fully covered by Federal Deposit Insurance Corporation insurance.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 235,734	$ –	$ –	$ 235,734
Construction in progress	–	47,175	–	47,175
Total capital assets, not depreciated	235,734	47,175	–	282,909
Capital assets, depreciated				
Land improvements	1,361,295	–	–	1,361,295
Buildings	26,327,885	68,574	–	26,396,459
Furniture and equipment	4,137,912	225,331	(214,399)	4,148,844
Total capital assets, depreciated	31,827,092	293,905	(214,399)	31,906,598
Less accumulated depreciation for				
Land improvements	(987,701)	(35,775)	–	(1,023,476)
Buildings	(9,730,260)	(593,075)	–	(10,323,335)
Furniture and equipment	(2,775,370)	(273,710)	207,095	(2,841,985)
Total accumulated depreciation	(13,493,331)	(902,560)	207,095	(14,188,796)
Net capital assets, depreciated	18,333,761	(608,655)	(7,304)	17,717,802
Total capital assets, net	$ 18,569,495	$ (608,655)	$ (7,304)	$ 18,000,711

Depreciation expense for the current year was charged to the following governmental functions:

Administration	$ 981
District support services	837
Elementary and secondary regular instruction	120,806
Vocational education instruction	2,873
Special education instruction	1,111
Instructional support services	5,497
Pupil support services	81,237
Community service	4,991
Depreciation not included in other functions	684,227
Total depreciation expense	$ 902,560

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2006 Refunding Bonds	03/14/2006	3.70–4.10%	$ 10,000,000	02/01/2026	$ 9,920,000
2010 Refunding Bonds	10/26/2010	0.90–2.40%	$ 2,395,000	02/01/2019	1,490,000
2012 Refunding Bonds	11/13/2012	2.00%	$ 2,270,000	02/01/2018	1,340,000
Total general obligation bonds payable					$ 12,750,000

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities, or to finance the retirement (refunding) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Capital Leases Payable

In June 2012, the District entered into a capital lease agreement with Kinetic Leasing, Inc. to finance the purchase of a building for $1,930,000 on behalf of the SCRED. The lease bears an interest rate of 2.97 percent and a final maturity of February 1, 2027. The District makes semiannual payments through the General Fund. Also in June 2012, the District entered into an agreement to sublease the building to the SCRED to purchase the building capitalized at $1,930,000. The lease bears an interest rate of 2.97 percent and a final maturity of February 1, 2027. The SCRED makes semiannual payments to the District. The terms of the sublease between the SCRED and the District are identical to the capital lease payment terms, with the intent of the transactions to be hold harmless to the District in matching debt payments with receipts from the SCRED.

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including pensions, severance benefits, compensated absences, and other post-employment benefits (OPEB). The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid primarily from the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and capital leases are as follows:

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Capital Leases Payable Principal	Capital Leases Payable Interest
2016	$ 905,000	$ 451,815	$ 116,940	$ 48,410
2017	915,000	434,705	120,440	44,910
2018	940,000	416,245	124,043	41,307
2019	1,065,000	396,330	127,755	37,595
2020	1,125,000	358,100	131,578	33,772
2021–2025	6,365,000	1,085,075	719,354	107,396
2026–2027	1,435,000	58,835	318,776	11,922
	$ 12,750,000	$ 3,201,105	$ 1,658,886	$ 325,312

E. Changes in Long-Term Liabilities

	Beginning Balance	Change in Accounting Principle*	Additions	Deletions	Ending Balance	Due Within One Year
General obligation bonds payable	$ 13,635,000	$ –	$ –	$ 885,000	$ 12,750,000	$ 905,000
Unamortized premium/discount	(29,231)	–	–	91	(29,322)	–
Total bonds payable	13,605,769	–	–	885,091	12,720,678	905,000
Capital leases payable	1,805,196	–	–	146,310	1,658,886	116,940
Net pension liability – PERA	–	1,462,453	93,174	293,728	1,261,899	–
Net pension liability – TRA	–	4,081,058	185,286	988,245	3,278,099	–
Separation benefits payable	39,500	–	25,000	9,000	55,500	55,500
	$ 15,450,465	$ 5,543,511	$ 303,460	$ 2,322,374	$ 18,975,062	$ 1,077,440

*Adjustment is part of the change in accounting principle described earlier in these notes.

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

A. Classifications

At June 30, 2015, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Permanent Fund	Other Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 6,246	$ 6,246
Restricted principal	–	–	511,000	–	511,000
Total nonspendable	–	–	511,000	6,246	517,246
Restricted					
Debt service	–	307,267	–	–	307,267
Pool center operations	–	–	2,100	–	2,100
Food service	–	–	–	100,244	100,244
Community education programs	–	–	–	46,297	46,297
Early childhood family education	–	–	–	13,475	13,475
Total restricted	–	307,267	2,100	160,016	469,383
Assigned					
Assigned for subsequent budget deficit	53,781	–	–	–	53,781
Separation benefits	8,000	–	–	–	8,000
Total assigned	61,781	–	–	–	61,781
Unassigned					
Unassigned	873,946	–	–	–	873,946
Health and safety (deficit)	(107,641)	–	–	–	(107,641)
Total unassigned	766,305	–	–	–	766,305
Total	$ 828,086	$ 307,267	$ 513,100	$ 166,262	$ 1,814,715

B. Minimum Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum fund balance. The policy establishes that the District will strive to maintain a minimum unassigned general operating funds balance of 15 percent of the general operating expenditures for each fiscal year. If the balance will decrease below 15 percent, the administration shall apprise the School Board of this prior to budget adoption. If the balance will decrease below 10 percent, the School Board will initiate certain measures to ensure that the balance does not fall below this level.

At June 30, 2015, the District has calculated a fund balance percentage of 11.1 percent, as intended in the fund balance policy as interpreted by the District.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State Colleges 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

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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

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

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

1. 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 the 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

The 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 Statutes 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

Step Rate Formula	Percentage per Year
Basic Plan	
First 10 years	2.2 percent
All years after	2.7 percent
Coordinated Plan	
First 10 years if service years are prior to July 1, 2006	1.2 percent
First 10 years if service years are July 1, 2006 or after	1.4 percent
All other years of service if service years are prior to July 1, 2006	1.7 percent
All other years of service if service years are July 1, 2006 or after	1.9 percent

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

C. Contributions

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

1. 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 percent and 6.5 percent, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5 percent of pay in 2015. In calendar year 2014, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.25 percent for Coordinated Plan members. In 2015, employer rates increased to 7.5 percent in the Coordinated Plan, The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were $104,887. The District's contributions were equal to the required contributions for each year as set by state statutes.

2. TRA Contributions

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

	Year Ended June 30,			
	2014		2015	
	Employee	Employer	Employee	Employer
Basic Plan	10.5%	11.0%	11.0%	11.5%
Coordinated Plan	7.0%	7.0%	7.5%	7.5%

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2015, were $246,230. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2015, the District reported a liability of $1,261,899 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 the 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 the PERA's participating employers. At June 30, 2014, the District's proportion was 0.0364 percent.

For the year ended June 30, 2015, the District recognized pension expense of $93,174 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 19,366	$ –
Changes in actuarial assumptions	130,051	–
Differences between projected and actual investment earnings	–	340,964
District's contributions to the GERF subsequent to the measurement date	104,887	–
Total	$ 254,304	$ 340,964

A total of $104,887 reported as deferred outflows of resources related to pensions resulting from district contributions to the 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 the GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2016	$ (35,435)
2017	$ (35,435)
2018	$ (35,435)
2019	$ (85,242)

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

2. TRA Pension Costs

At June 30, 2015, the District reported a liability of $3,278,099 for its proportionate share of the TRA'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 to the TRA in relation to total system contributions including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.1214 percent at the end of the measurement period and 0.1214 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the 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	$	3,278,099
State's proportionate share of the net pension liability associated with the District	$	230,538

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.

For the year ended June 30, 2015, the District recognized pension expense of $175,229. It also recognized $10,057 as pension expense for the support provided by direct aid.

At June 30, 2015, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 279,711	$ –
Difference between projected and actual investment earnings	–	1,030,601
District's contributions to the TRA subsequent to the measurement date	246,230	–
Total	$ 525,941	$ 1,030,601

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

A total of $246,230 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA 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 the TRA will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2016	$ (199,256)
2017	$ (199,256)
2018	$ (199,256)
2019	$ (199,256)
2020	$ 46,134

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:

Assumptions	GERF	TRA
Inflation	2.75% per year	3.0%
Active member payroll growth	3.50% per year	3.75% based on years of service
Investment rate of return	7.90%	8.25%

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 Statement No. 67 valuation.

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

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

The long-term expected rate of return on pension plan investments is 7.9 percent for the GERF and 8.25 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent for the GERF and 8.25 percent for the TRA. 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 the statute. Based on those assumptions, each of the pension plan's fiduciary net positions were 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	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	$ 2,034,231	$ 1,261,899	$ 626,451
TRA discount rate	7.25%	8.25%	9.25%
District's proportionate share of the TRA net pension liability	$ 5,417,574	$ 3,278,099	$ 1,494,516

H. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at the TRA website at www.MinnesotaTRA.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-2088; or by calling (651) 296-2409 or (800) 657-3669.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District contributes funds to eligible retirees to be used for medical and/or dental insurance premiums. Benefits paid by the District differ by bargaining unit. Retirees not eligible for district-paid benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs 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 for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

ARC	$	46,951
Interest on net OPEB obligation		(7,320)
Adjustment to ARC		10,740
Annual OPEB cost		50,371
Contributions made		46,649
Change in net OPEB obligation		3,722
Negative net OPEB obligation – beginning of year		(162,675)
Negative net OPEB obligation – end of year	$	(158,953)

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the negative net OPEB obligation for the past three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Negative Net OPEB Obligation (Asset)
June 30, 2013	$ 52,798	$ 52,362	99.2%	$ (157,664)
June 30, 2014	$ 53,563	$ 58,574	109.4%	$ (162,675)
June 30, 2015	$ 50,371	$ 46,649	92.6%	$ (158,953)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) were both $421,237, as the plan is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $4,038,125, and the ratio of the UAAL to the covered payroll was 10.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 immediately following the notes to basic 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.

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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of investment expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2012 for the various amortization layers ranged from 27 to 30 years.

NOTE 8 – TRANSFERS

During the current fiscal year, the General Fund made a transfer of $54,870 to the Community Service Special Revenue Fund to support the operations of the recreation center. Interfund transactions reported in the governmental fund statements are eliminated in the government-wide financial statements.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Legal Contingencies

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Construction Contracts

At June 30, 2015, the District had commitments totaling $15,725 under construction contracts for which the work was not yet completed.

NOTE 10 – SUBSEQUENT EVENT

Lease Agreement

On July 1, 2015, the District entered into a lease agreement with CSI Leasing, Inc. for a 36-month period ended on June 30, 2018 to provide Chromebook laptops to all students of the District. The lease bears interest based on the Treasury Yield rate, which is currently 0.84 percent, of which the total cost of the lease is not to exceed $100,000.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 139

Defined Benefit Pensions Plans
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
GERF/TRA Retirement Funds
June 30, 2015

Public Employees Retirement Association

	2014
District's proportion of the net pension liability (asset)	0.0364%
District's proportionate share of the net pension liability (asset)	$ 1,261,899
District's covered-employee payroll	$ 1,401,848
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	90.02%
Plan fiduciary net position as a percentage of the total pension liability	78.70%

Teachers Retirement Association

District's proportion of the net pension liability (asset)	0.1214%
District's proportionate share of the net pension liability (asset) (a)	$ 3,278,099
District's proportionate share of the state of Minnesota's proportionate share of the net pension liability (b)	230,528
Proportionate share of the net pension liability and the District's share of the state of Minnesota's share of the net pension liability (a + b)	$ 3,508,627
District's covered-employee payroll	$ 3,255,055
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	100.71%
Plan fiduciary net position as a percentage of the total pension liability	81.50%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 139

Defined Benefit Pensions Plans
Schedule of District Contributions
GERF/TRA Retirement Funds
June 30, 2015

Public Employees Retirement Association

	2015
Statutorily required contribution	$ 104,887
Contributions in relation to the statutorily required contributions	104,887
Contribution deficiency (excess)	$ –
District’s covered-employee payroll	$ 1,429,543
Contributions as a percentage of covered-employee payroll	7.34%

Teachers Retirement Association

Statutorily required contribution	$ 246,230
Contributions in relation to the statutorily required contributions	246,230
Contribution deficiency (excess)	$ –
District’s covered-employee payroll	$ 3,292,248
Contributions as a percentage of covered-employee payroll	7.48%

Note: The District implemented GASB Statement No. 68 in fiscal 2015. This information is not available for previous fiscal years.

Other Post-Employment Benefits Plan
Schedule of Funding Progress
June 30, 2015

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2009	$ 665,155	$ –	$ 665,155	– %	$ 3,722,213	17.9 %
July 1, 2012	$ 421,237	$ –	$ 421,237	– %	$ 4,038,125	10.4 %

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 139

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2015

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 110,131	$ 115,836	$ 225,967
Receivables			
Current taxes	–	36,161	36,161
Delinquent taxes	–	3,414	3,414
Accounts and interest	59	1,078	1,137
Due from other governmental units	–	4,801	4,801
Inventory	6,246	–	6,246
Total assets	$ 116,436	$ 161,290	$ 277,726
Liabilities			
Accounts and contracts payable	$ 8,684	$ 36,602	$ 45,286
Unearned revenue	1,262	775	2,037
Total liabilities	9,946	37,377	47,323
Deferred inflows of resources			
Unavailable revenue – delinquent taxes receivable	–	3,414	3,414
Property taxes levied for subsequent year	–	60,727	60,727
Total deferred inflows of resources	–	64,141	64,141
Fund balances			
Nonspendable for inventory	6,246	–	6,246
Restricted	100,244	59,772	160,016
Total fund balances	106,490	59,772	166,262
Total liabilities, deferred inflows of resources, and fund balances	$ 116,436	$ 161,290	$ 277,726

INDEPENDENT SCHOOL DISTRICT NO. 139

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2015

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 58,261	$ 58,261
Investment earnings	512	331	843
Other	185,037	267,597	452,634
State sources	22,279	74,126	96,405
Federal sources	178,937	–	178,937
Total revenue	386,765	400,315	787,080
Expenditures			
Current			
Food service	382,766	–	382,766
Community service	–	412,616	412,616
Capital outlay	18,635	17,825	36,460
Total expenditures	401,401	430,441	831,842
Excess (deficiency) of revenue over expenditures	(14,636)	(30,126)	(44,762)
Other financing sources			
Transfers in	–	54,870	54,870
Net change in fund balances	(14,636)	24,744	10,108
Fund balances			
Beginning of year	121,126	35,028	156,154
End of year	$ 106,490	$ 59,772	$ 166,262

INDEPENDENT SCHOOL DISTRICT NO. 139

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015			2014
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 500	$ 512	$ 12	$ 417
Other – primarily meal sales	209,500	185,037	(24,463)	198,737
State sources	22,700	22,279	(421)	21,319
Federal sources	193,500	178,937	(14,563)	191,247
Total revenue	426,200	386,765	(39,435)	411,720
Expenditures				
Current				
Salaries	140,824	133,805	(7,019)	132,650
Employee benefits	38,783	37,016	(1,767)	38,674
Purchased services	20,550	21,456	906	23,031
Supplies and materials	202,400	190,489	(11,911)	198,833
Capital outlay	18,000	18,635	635	11,035
Total expenditures	420,557	401,401	(19,156)	404,223
Net change in fund balances	$ 5,643	(14,636)	$ (20,279)	7,497
Fund balances				
Beginning of year		121,126		113,629
End of year		$ 106,490		$ 121,126

INDEPENDENT SCHOOL DISTRICT NO. 139

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015			2014
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 56,724	$ 58,261	$ 1,537	$ 30,820
Investment earnings	500	331	(169)	148
Other – primarily tuition and fees	291,088	267,597	(23,491)	287,068
State sources	47,623	74,126	26,503	81,445
Total revenue	395,935	400,315	4,380	399,481
Expenditures				
Current				
Salaries	227,195	220,564	(6,631)	237,045
Employee benefits	53,725	52,213	(1,512)	60,140
Purchased services	86,450	79,747	(6,703)	88,477
Supplies and materials	33,000	35,755	2,755	42,281
Other expenditures	25,800	24,337	(1,463)	25,288
Capital outlay	13,200	17,825	4,625	26,186
Total expenditures	439,370	430,441	(8,929)	479,417
Excess (deficiency) of revenue over expenditures	(43,435)	(30,126)	13,309	(79,936)
Other financing sources				
Transfers in	60,482	54,870	(5,612)	62,329
Net change in fund balances	$ 17,047	24,744	$ 7,697	(17,607)
Fund balances				
Beginning of year		35,028		52,635
End of year		$ 59,772		$ 35,028

INDEPENDENT SCHOOL DISTRICT NO. 139

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015			2014
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,228,266	$ 1,228,377	$ 111	$ 1,240,740
Investment earnings	2,000	1,497	(503)	1,293
State sources	130,146	129,079	(1,067)	123,382
Total revenue	1,360,412	1,358,953	(1,459)	1,365,415
Expenditures				
Debt service				
Principal	885,000	885,000	–	855,000
Interest	468,000	467,365	(635)	491,352
Fiscal charges and other	2,000	1,449	(551)	1,450
Total expenditures	1,355,000	1,353,814	(1,186)	1,347,802
Net change in fund balances	$ 5,412	5,139	$ (273)	17,613
Fund balances				
Beginning of year		302,128		284,515
End of year		$ 307,267		$ 302,128

INDEPENDENT SCHOOL DISTRICT NO. 139

Agency Funds
Combining Statement of Assets and Liabilities
as of June 30, 2015

	Agency Funds		
	Student Activities	St. Croix River Education District	Total
Assets			
Cash and temporary investments	$ 128,413	$ 3,621	$ 132,034
Liabilities			
Accounts payable	$ 128,413	$ 3,621	$ 132,034

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OTHER REQUIRED REPORTS

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MMKR
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James H. Eichten, CPA
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Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S 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

To the School Board and Management of
Independent School District No. 139
Rush City, 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. 139 (the District) 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, and have issued our report thereon dated October 23, 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 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.

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations as item 2015-001, that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. 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 results 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 23, 2015

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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 139
Rush City, 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. 139, (the District) 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, and have issued our report thereon dated October 23, 2015.

MINNESOTA LEGAL COMPLIANCE

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

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

PURPOSE OF THIS REPORT

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

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Minneapolis, Minnesota
October 23, 2015

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FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2015-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The District has limited segregation of duties in several areas, including the processing of general disbursements, payroll transactions, investing activities, and general receipt entries.

Questioned Costs – Not applicable.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected and corrected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

Corrective Action Plan

Actions Planned – The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness.

Official Responsible – The Business Manager.

Planned Completion Date – June 30, 2016.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Business Manager and the Superintendent will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

None.

INDEPENDENT SCHOOL DISTRICT NO. 139

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2015

			Audit		UFARS		Audit – UFARS
General Fund							
Total revenue		$	8,333,995	$	8,333,992	$	3
Total expenditures		$	8,385,359	$	8,385,355	$	4
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	(107,641)	$	(107,641)	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
411	Severance pay	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	–	$	–	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
448	Achievement and integration	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	61,781	$	61,781	$	–
Unassigned							
422	Unassigned fund balance	$	873,946	$	873,947	$	(1)
Food Service							
Total revenue		$	386,765	$	386,763	$	2
Total expenditures		$	401,401	$	401,398	$	3
Nonspendable							
460	Nonspendable fund balance	$	6,246	$	6,245	$	1
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	100,244	$	100,245	$	(1)
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	400,315	$	400,314	$	1
Total expenditures		$	430,441	$	430,441	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	46,297	$	46,297	$	–
432	ECFE	$	13,475	$	13,475	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
444	School readiness	$	–	$	–	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2015

		Audit		UFARS		Audit – UFARS	
Building Construction							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
407	Capital projects levy	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
413	Project funded by COP	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Debt Service							
Total revenue		$	1,358,953	$	1,358,953	$	–
Total expenditures		$	1,353,814	$	1,353,815	$	(1)
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
425	Bond refundings	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	307,267	$	307,267	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Trust							
Total revenue		$	21,427	$	21,426	$	1
Total expenditures		$	18,858	$	18,859	$	(1)
422	Net position	$	670,776	$	670,775	$	1
Internal Service							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Revocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Irrevocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Debt Service Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
425	Bond refundings	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Note 1: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Note 2: The amount of funds held for the Aquatic Center accounted for as a permanent fund for financial statement purposes is included in the Trust Fund net position balance for the purpose of this table.

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