# INDEPENDENT SCHOOL DISTRICT NO. 314
# BRAHAM, MINNESOTA

## AUDITED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED
## JUNE 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

TABLE OF CONTENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

## BOARD OF EDUCATION

| | Term on Board Expires | Position |
|---|---|---|
| Steven Eklund | January, 2018 | Chairperson |
| Robert Hughes | January, 2016 | Vice-Chairperson |
| Zane Braund | January, 2016 | Clerk |
| Anthony Cuda | January, 2016 | Treasurer |
| Angie Flowers | January, 2016 | Director |
| Allison Londgren | January, 2018 | Director |
| Mike Thompson | January, 2018 | Director |

## ADMINISTRATION

| | |
|---|---|
| Ken Gagner | Superintendent |
| Judy Patzoldt | Business Manager |

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INDEPENDENT AUDITOR'S REPORT

November 16, 2015

Members of the School Board
Independent School District No. 314
Braham, Minnesota

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota, (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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota, as of June 30, 2015 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 13 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. GASB 68, *Accounting and Financial Reporting for Pensions.*

***Other Matters***

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, schedule of funding progress for OPEB, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information, such as the combining debt service funds financial statements listed in the table of contents under supplemental section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education and is not a required part of the financial statements. The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 combining debt service funds financial statements, Uniform Financial Accounting and Reporting Standards Compliance Table, and the schedule of expenditures of federal awards, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the Independent School District No. 314, Braham, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

# MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

This section of Independent School District No. 314 – Braham Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

## FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-15 fiscal year include the following:

- Liabilities of the District exceeded its assets at June 30, 2015 by $2,265,166 (net position). Of this amount $271,411 (unrestricted net position) may be used to meet the District's ongoing obligations.

- At June 30, 2015, the District's governmental funds reported total fund balances of $419,547. Of this amount, $39,778 (unassigned fund balance) may be used to meet the general District's spending requirements. The unassigned fund balance represents 0.5% of total General Fund expenditures.

- The debt service and food service fund balances increased $40,762 and $3,199, while the building construction, community service, and general fund balances decreased $40,161, $10,802, and $682,669, respectively.

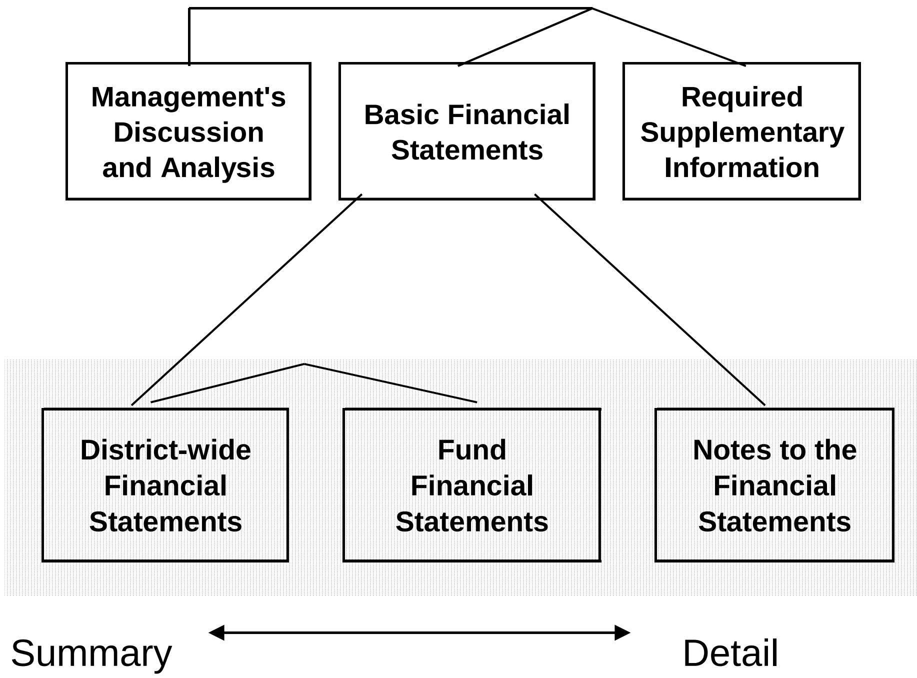
## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

1) District-wide financial statements, providing information for the District as a whole.
2) Fund financial statements, providing detailed information for the District's significant funds.
3) Notes to the financial statements, providing additional information that is essential to understanding the District-wide and fund statements.

The financial statements are followed by budget to actual comparisons for the general fund and the major special revenue funds. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**




The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

**District-wide Statements**

The *District-wide* financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state aids and earned but not used vacation leave).

In the District-wide financial statements, the District's activities are shown in one category, governmental activities. Most of the District's base services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

The District-wide financial statements can be found on pages 13-14 of this report.

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds, governmental and fiduciary.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a governmental unit's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, food service, community service, building and construction, and debt service funds.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statements can be found on pages 21-22 of this report.

*Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 23-39 of this report.

*Required Supplementary Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the District's annual pension cost and schedule of expenditures of federal awards.

## DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial position. In the case of the District, liabilities exceeded assets by $2,265,166 at the close of the most recent fiscal year. $3,362,655 of this amount represents net investment in capital assets

The District uses these capital assets to provide District services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Net Position

The District's combined net position was $(2,256,166) on June 30, 2015. (See details in the table below.) This is up from $(2,500,241) at June 30, 2014, an increase of $85,075.

| | ***2015*** | ***2014*** |
|---|---|---|
| *Assets* | | |
| Current and other assets | $ 3,923,400 | $ 4,513,427 |
| Capital assets | 9,287,389 | 9,370,819 |
| | 13,210,789 | 13,884,246 |
| *Deferred Outflows of Resources* | | |
| Deferred outflows related to pensions | 818,988 | - |
| Deferred refunding debits | 9,503 | 12,156 |
| | 828,491 | 12,156 |
| *Liabilities* | | |
| Current liabilities | 988,919 | 1,750,237 |
| Long-term liabilities | 12,034,135 | 7,289,841 |
| | 13,023,054 | 9,040,078 |
| *Deferred Inflows of Resources* | | |
| Deferred inflows related to pensions | 1,775,071 | - |
| Unavailable revenue | 1,656,321 | 1,394,506 |
| | 3,431,392 | 1,394,506 |
| **Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources** | **$ (2,415,166)** | **$ 3,461,818** |
| *Net Position* | | |
| Net Investment in Capital Assets | $ 3,362,655 | $ 2,854,935 |
| Unrestricted | (5,627,821) | 606,883 |

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

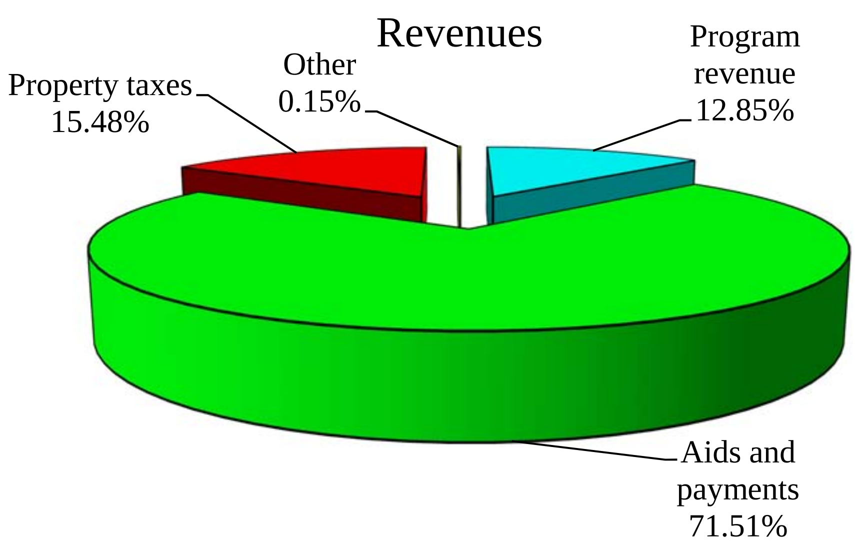
## Change in Net Position

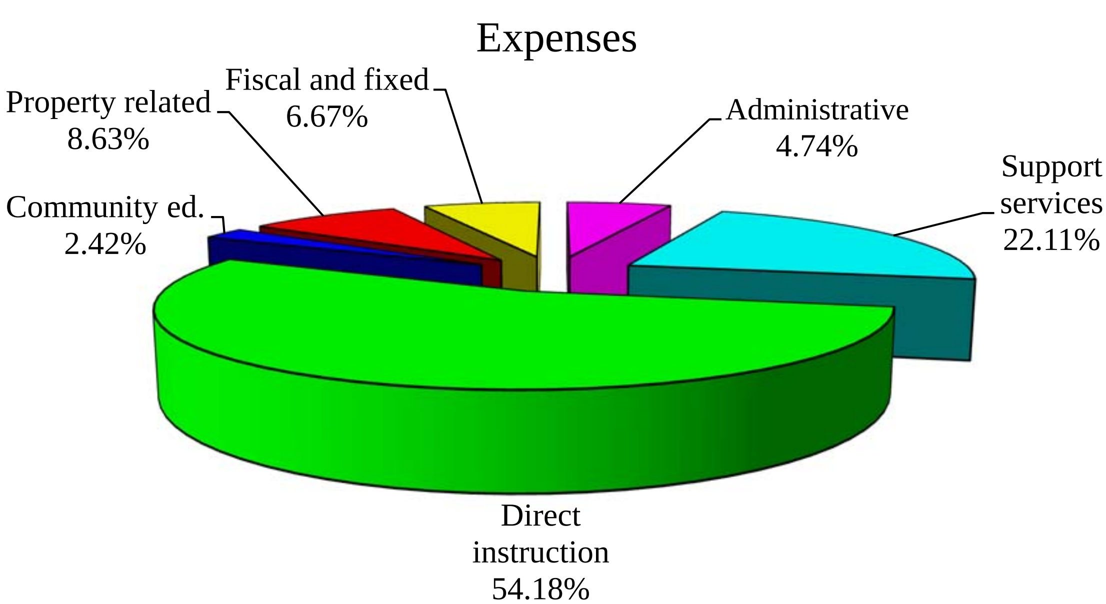
A summary of the revenues and expenses is presented in the table below.

| | 2015 | 2014 |
|---|---|---|
| *Revenues* | | |
| Program revenues | | |
| Charges for services | $ 362,960 | $ 238,087 |
| Operating grants and contributions | 692,719 | 1,047,311 |
| Capital grants and contributions | 156,004 | 169,122 |
| General revenues | | |
| Property taxes | 1,459,442 | 1,388,696 |
| Aids and payments from state and other | 6,741,445 | 6,347,201 |
| Other sources | 14,589 | 142,579 |
| | 9,427,159 | 9,332,996 |
| *Expenses* | | |
| Administration | 558,973 | 498,202 |
| District support services | 505,244 | 474,516 |
| Regular instruction | 3,833,143 | 4,020,917 |
| Vocational instruction | 122,325 | 112,563 |
| Exceptional instruction | 1,105,862 | 985,824 |
| Community education and services | 226,190 | 162,218 |
| Instructional support services | 267,238 | 231,839 |
| Pupil support services | 1,293,430 | 1,266,352 |
| Site, buildings and equipment | 806,156 | 1,097,812 |
| Fiscal and other fixed-cost programs | 10,241 | 150,963 |
| Depreciation - unallocated | 342,038 | 342,038 |
| Interest on long-term debt | 271,244 | 394,412 |
| | 9,342,084 | 9,737,656 |
| Change in net assets | 85,075 | (404,660) |
| Net position - beginning, as Previously Stated | 3,398,991 | 3,803,651 |
| Change in Accounting Principle | (5,899,232) | - |
| Net Position - beginning, as Restated | (2,500,241) | 3,803,651 |
| **Net position - ending** | **$ (2,415,166)** | **$ 3,398,991** |

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



## DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

The net cost of governmental activities is their total costs less program revenues applicable to each category. The table below shows the net costs of these services.

| | *2015* | *2014* |
|---|---|---|
| District and school administration | $ 558,973 | $ 498,202 |
| District support services | 505,244 | 474,516 |
| Regular instruction | 3,833,143 | 4,020,917 |
| Vocational instruction | 122,325 | 112,563 |
| Exceptional instruction | 1,105,862 | 985,824 |
| Community education and services | 226,190 | 162,218 |
| Instructional support services | 267,238 | 231,839 |
| Pupil support services | 1,293,430 | 1,266,352 |
| Site, buildings and equipment | 806,156 | 1,097,812 |
| Fiscal and other fixed cost programs | 10,241 | 150,963 |
| Depreciation - unallocated | 342,038 | 342,038 |
| Interest on long-term debt | 271,244 | 394,412 |
| **Total** | **$ 9,342,084** | **$ 9,737,656** |

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
## (FUND FINANCIAL STATEMENTS)

### Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $419,547. This was down from $1,109,218 at the end of the prior year, a decrease of $689,671. To further understand the changes from one year to the next, one needs to look at each individual fund balance. The major changes will be discussed here. The general fund unassigned fund balance decreased $682,669 from the previous year. This decrease was expected due to budgeted infrastructure outlays. Additionally, the revised budget was made in anticipation of no state aid increases in the next couple of years. The building construction fund also saw a decrease in fund balance over the previous year, down $40,161 from the previous year to ($41,161). This decrease is due to completion of major facility improvement to the district's buildings. The other funds did not have significant changes.

### Revenues and Expenditures

Revenues and other financing sources of the District's governmental funds totaled $9,421,546 while total expenditures and other financing uses were $10,111,217. Summaries of the revenues and other financing sources and expenditures and other financing uses reported on the governmental fund financial statements appear in the tables on the following page.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (FUND FINANCIAL STATEMENTS) - Continued

### Revenues and Other Financing Sources

| | 2015 | 2014 | Amount of Increase (Decrease) |
|---|---|---|---|
| General fund | $ 7,765,926 | $ 7,779,913 | $ (13,987) |
| Food service fund | 486,350 | 443,904 | 42,446 |
| Community service fund | 216,866 | 151,994 | 64,872 |
| Building and construction fund | - | - | - |
| Debt service fund | 952,404 | 3,895,679 | (2,943,275) |
| **Totals** | **$ 9,421,546** | **$ 12,271,490** | **$ (2,849,944)** |

### Expenditures and Other Financing Uses

| | 2015 | 2014 | Amount of Increase (Decrease) |
|---|---|---|---|
| General fund | $ 8,448,595 | $ 8,517,860 | $ (69,265) |
| Food service fund | 483,151 | 461,211 | 21,940 |
| Community service fund | 227,668 | 161,027 | 66,641 |
| Building and construction fund | 40,161 | 93,141 | (52,980) |
| Debt service fund | 911,642 | 3,783,382 | (2,871,740) |
| **Totals** | **$ 10,111,217** | **$ 13,016,621** | **$ (2,905,404)** |

### General Fund Budgetary Highlights

The original budget was approved in June 2014 using the best forecasted data at the time. The budget was updated in January 2015 as the result of the following factors: Debt refunding, Special Ed changes, changes in staff and ADM, and levy changes.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Note 5 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2015. Additions totaling $465,825 consisted mostly of the ongoing work in process for roofing replacement, security upgrades to the school building vestibules, and high school bathroom remolding.

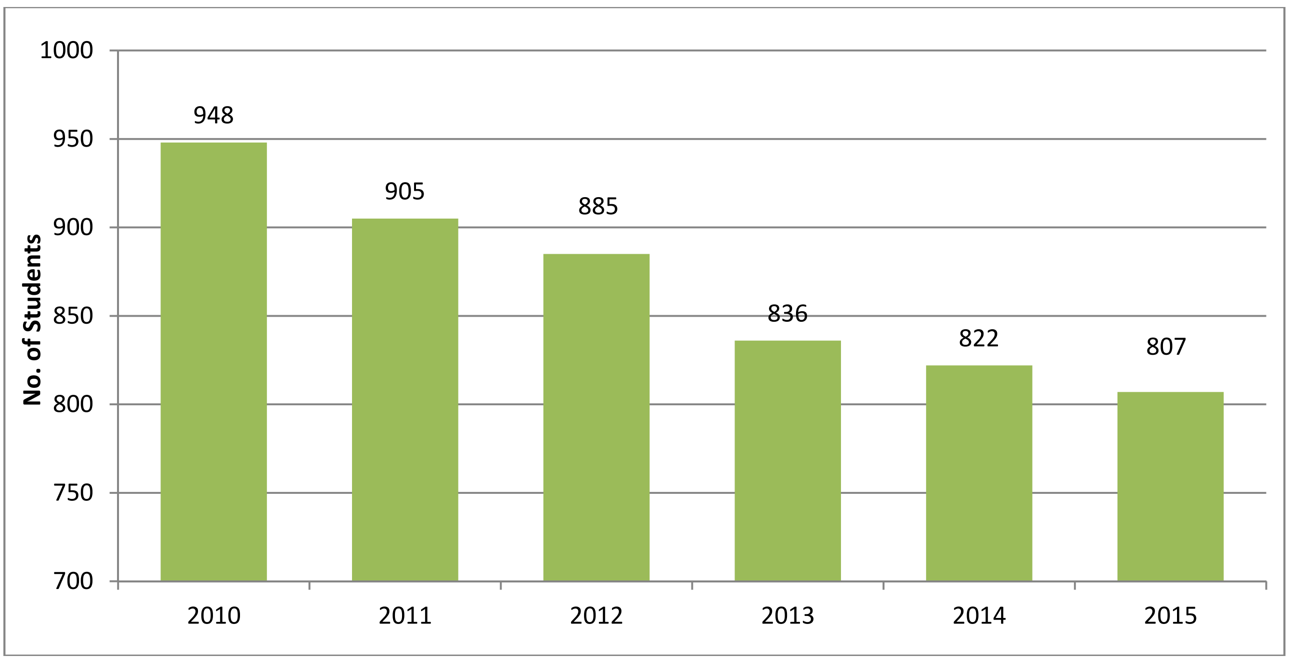
### Long-Term Debt

At year-end the District had $7,570,751 of long-term debt. This consisted of bonded indebtedness of $6,620,000, severance payable of $144,326, capital leases of $787,875, and vacation payable of $18,550.

During the fiscal year ended June 30, 2009, the District entered into an agreement with a construction manager for improvements to the mechanical, electrical, ventilation, and temperature control systems that would provide an energy savings, thereby reducing the costs of operation. The capital lease listed above is the debt that is remaining to be paid on this project. The total cost of the project is expected to be recovered in 15 years due to increased efficiencies and utility savings.

## FACTORS BEARING ON THE DISTRICT'S FUTURE

Declining enrollment continues to be a source of stress on the District's financial future. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations. The District's ADM (average daily membership) for the current and past five years are illustrated below. The Enrollment-Table below presents this information.




The political environment at the state level could have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive.

Labor contracts, which are in effect for a two-year period, have been re-negotiated for the two-year period beginning July 1, 2013. The current contract saw no substantive changes for the prior agreement.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact Judy Patzoldt, Business Manager, Braham ISD #314, 531 Elmhurst Ave S, Braham, Minnesota, 55006.

# BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF NET POSITION
June 30, 2015

| | Governmental Activities |
|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | |
| **Assets:** | |
| Cash and Investments | $ 1,002,403 |
| Receivables: | |
| Accounts | 190,425 |
| Current Taxes | 899,233 |
| Delinquent Taxes | 74,754 |
| Due from Other Governments | 820,083 |
| Inventory | 11,324 |
| Prepaid Items | 50,858 |
| Net OPEB Asset | 874,320 |
| Capital Assets: | |
| Assets Not Being Depreciated | 310,600 |
| Other Capital Assets, Net of Depreciation | 8,976,789 |
| Total Assets | 13,210,789 |
| **Deferred Outflows of Resources:** | |
| Deferred Outflows related to Pensions | 818,988 |
| Deferred Refunding Debits | 9,503 |
| Total Deferred Outflows of Resources | 828,491 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 14,039,280 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | |
| **Liabilities:** | |
| Payables | $ 757,096 |
| Due to Other Minnesota School Districts | 141,363 |
| Interest Payable | 90,460 |
| Noncurrent Liabilities: | |
| Due Within One Year | 769,771 |
| Due in More Than One Year | 11,264,364 |
| Total Liabilitites | 13,023,054 |
| **Deferred Inflows of Resources** | |
| Property Taxes Levied For Subsequent Year | 1,656,321 |
| Deferred Inflows related to Pensions | 1,775,071 |
| Total Deferred Inflows or Resources | 3,431,392 |
| **Net Position:** | |
| Net Investment in Capital Assets | 3,362,655 |
| Unrestricted | (5,627,821) |
| Total Net Position | (2,265,166) |
| TOAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | $ 14,189,280 |

The Notes to the Financial Statements are an Integral Part of These Statements.

# STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITES:** | | | | | |
| District and School Administration | $ 558,973 | $ 0 | $ 0 | $ 0 | $ (558,973) |
| District Support Services | 505,244 | 0 | 0 | 0 | (505,244) |
| Regular Instruction | 3,833,143 | 85,871 | 48,247 | 149,678 | (3,549,347) |
| Vocational Instruction | 122,325 | 0 | 9,695 | 6,326 | (106,304) |
| Special Education Instruction | 1,105,862 | 30,323 | 287,925 | 0 | (787,614) |
| Community Education and Services | 226,190 | 65,599 | 45,226 | 0 | (115,365) |
| Instructional Support Services | 267,238 | 0 | 0 | 0 | (267,238) |
| Pupil Support Services | 1,293,430 | 180,567 | 301,045 | 0 | (811,818) |
| Site, Buildings, and Equipment | 806,156 | 600 | 581 | 0 | (804,975) |
| Fiscal and Other Fixed Costs | 10,241 | 0 | 0 | 0 | (10,241) |
| Unallocated Depreciation | 342,038 | 0 | 0 | 0 | (342,038) |
| Interest on Long-term Debt | 271,244 | 0 | 0 | 0 | (271,244) |
| Total Governmental activities | $ 9,342,084 | $ 362,960 | $ 692,719 | $ 156,004 | (8,130,401) |

| | |
|---|---|
| General Revenues: | |
| Taxes: | |
| Property TaxesLevied for General Purposes | 501,831 |
| Property Taxes Levied for Specific Purposes | 957,611 |
| Aids and Payments from the State | 6,614,157 |
| Aids and Payments from Local Sources | 127,288 |
| Other General Revenues | 14,159 |
| Unrestricted Interest Earnings | 430 |
| Total General Revenues | 8,215,476 |
| Change in Net Position | 85,075 |
| Net Position - Beginning, as Previously Stated | 3,398,991 |
| Change in Accounting Principle | (5,899,232) |
| Net Position - Beginning, as Restated | (2,500,241) |
| Net Position - Ending | $ (2,415,166) |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

| | General Fund | Food Service Fund | Community Service Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Investments | $ 165,861 | $ 30,941 | $ 28,686 |
| Accounts Receivable | 190,425 | 0 | 0 |
| Property Taxes Receivable | 452,810 | 0 | 23,875 |
| Due from Minnesota Department of Education | 550,332 | 2,909 | 7,272 |
| Due from Federal Through State | 211,002 | 0 | 0 |
| Due from Other Minnesota School Districts | 37,894 | 1,689 | 604 |
| Due from Other Governmental Unit | 5,184 | 0 | 0 |
| Inventory | 0 | 11,324 | 0 |
| Prepaid Items | 50,858 | 0 | 0 |
| TOTAL ASSETS | $ 1,664,366 | $ 46,863 | $ 60,437 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE** | | | |
| **Liabilities:** | | | |
| Salaries and Benefits Payable | $ 665,760 | $ 11,724 | $ 5,096 |
| Accounts Payable | 39,986 | 822 | 285 |
| Due to Other Minnesota School Districts | 141,363 | 0 | 0 |
| Total Liabilities | 847,109 | 12,546 | 5,381 |
| **Deferred Inflows of Resourses:** | | | |
| Unavailable Revenue - Delinquent Taxes | 30,662 | 0 | 2,380 |
| Property Taxes Levied for Subsequent Year | 695,959 | 0 | 43,275 |
| Total Deferred Inflows of Resources | 726,621 | 0 | 45,655 |
| **Fund Balance:** | | | |
| Nonspendable | 50,858 | 11,324 | 0 |
| Restricted | 0 | 22,993 | 9,401 |
| Unassigned | 39,778 | 0 | 0 |
| Total Fund Equity | 90,636 | 34,317 | 9,401 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE | $ 1,664,366 | $ 46,863 | $ 60,437 |

The Notes to the Financial Statements are an Integral Part of These Statements.

| Building Construction Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|
| $ (6,739) | $ 783,653 | $ 1,002,402 |
| 0 | 0 | 190,425 |
| 0 | 497,302 | 973,987 |
| 0 | 3,197 | 563,710 |
| 0 | 0 | 211,002 |
| 0 | 0 | 40,187 |
| 0 | 0 | 5,184 |
| 0 | 0 | 11,324 |
| 0 | 0 | 50,858 |
| $ (6,739) | $ 1,284,152 | $ 3,049,079 |
| | | |
| $ 0 | $ 0 | $ 682,580 |
| 33,422 | 0 | 74,515 |
| 0 | 0 | 141,363 |
| 33,422 | 0 | 898,458 |
| | | |
| 0 | 41,711 | 74,753 |
| 0 | 917,087 | 1,656,321 |
| 0 | 958,798 | 1,731,074 |
| | | |
| 0 | 0 | 62,182 |
| 0 | 325,354 | 357,748 |
| (40,161) | 0 | (383) |
| (40,161) | 325,354 | 419,547 |
| | | |
| $ (6,739) | $ 1,284,152 | $ 3,049,079 |

INDEPENDENT SCHOOL DISTRICT NO. 314

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2015

| | |
|---|---|
| Total Fund Balances - Governmental Funds | $ 419,547 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | |
| Cost of capital assets | 16,530,450 |
| Less: Accumulated depreciation | (7,243,061) |
| Long-term liabilities, including compensated absences and severance benefits payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Bonds payable | (6,220,000) |
| Unamortized Premiums/discounts | (81,360) |
| Deferred amount on bond refunding | 9,502 |
| Obligations under capital leases | (787,875) |
| Serverance benefits payable | (144,326) |
| Compensated absences payable | (18,550) |
| Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds. | |
| Delinquent property taxes | 74,754 |
| Net pension liabilities and other post employment benefits (OPEB) assets are not recognized under the current financial resource measuremnt focus and, therefore, has no effect on fund balance | |
| Net pension liabilities | (4,782,024) |
| Net OPEB assets | 874,320 |
| Deferred inflows and outflows of resources related to net pension liabilities are not recognized under the current financial resources measurement focus and , therefore, has no effect on fund balance | |
| Deferred outflows of resources related to pensions | 818,988 |
| Deferred inflows of resources related to pensions | (1,775,071) |
| Governmental funds do not report a liability for accrued interest payable until due and payable. | (90,460) |
| Total Net Position - Governmental Activities | $ (2,415,166) |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| | General Fund | Food Service Fund | Community Service Fund |
|---|---|---|---|
| **Revenues:** | | | |
| Local Property Taxes | $ 504,638 | $ 0 | $ 40,086 |
| Other Local and County Revenues | 195,764 | 7 | 107,014 |
| Revenue From State Sources | 6,780,961 | 31,232 | 69,766 |
| Revenue From Federal Sources | 283,674 | 269,900 | 0 |
| Sales and Other Conversions of Assets | 889 | 185,211 | 0 |
| Total Revenues | 7,765,926 | 486,350 | 216,866 |
| **Expenditures:** | | | |
| District and School Administration | 563,268 | 0 | 0 |
| District Support Services | 497,977 | 0 | 0 |
| Regular Instruction | 3,909,570 | 0 | 0 |
| Vocational Instruction | 122,372 | 0 | 0 |
| Exceptional Instruction | 1,115,204 | 0 | 0 |
| Community Education and Services | 0 | 0 | 226,881 |
| Instructional Support Services | 270,254 | 0 | 0 |
| Pupil Support Services | 802,365 | 483,151 | 787 |
| Site, Buildings, and Equipment | 1,037,653 | 0 | 0 |
| Fiscal and Other Fixed Cost Programs | 129,932 | 0 | 0 |
| Total Expenditures | 8,448,595 | 483,151 | 227,668 |
| Excess of Revenues Over (Under) Expenditures | (682,669) | 3,199 | (10,802) |
| Fund Balance - Beginning | 773,305 | 31,118 | 20,203 |
| Fund Balance - Ending | $ 90,636 | $ 34,317 | $ 9,401 |

The Notes to the Financial Statements are an Integral Part of These Statements.

| Building Construction Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|
| | | |
| $ 0 | $ 920,230 | $ 1,464,954 |
| 0 | 204 | 302,989 |
| 0 | 31,970 | 6,913,929 |
| 0 | 0 | 553,574 |
| 0 | 0 | 186,100 |
| 0 | 952,404 | 9,421,546 |
| | | |
| 0 | 0 | 563,268 |
| 0 | 0 | 497,977 |
| 0 | 0 | 3,909,570 |
| 0 | 0 | 122,372 |
| 0 | 0 | 1,115,204 |
| 0 | 0 | 226,881 |
| 0 | 0 | 270,254 |
| 0 | 0 | 1,286,303 |
| 40,161 | 0 | 1,077,814 |
| 0 | 911,642 | 1,041,574 |
| 40,161 | 911,642 | 10,111,217 |
| | | |
| (40,161) | 40,762 | (689,671) |
| | | |
| 0 | 284,592 | 1,109,218 |
| | | |
| $ (40,161) | $ 325,354 | $ 419,547 |

# RECONCILILITATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

| | |
|---|---|
| Net Change in Fund Balances - Governmental Funds | $ (689,671) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital outlay | 465,825 |
| Depreciation expense | (544,099) |
| Loss on disposal | (2,957) |
| The issuance of long-term debt provides current financial resouces to governmental funds, while the repayment of principal of long-term debt consumes the current financial resouces. Neither transaction, however, has any effect on net position. | |
| Bond principal repayments and capital lease retirement | 718,882 |
| Amortization of debt premiums/discounts | 22,895 |
| Interest on long-term debt in the statement of activites differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrued, regardless of when it is due. | 18,309 |
| In the statement of activities, payments made after the measurement date for net pension liability determination is recognized as deferred outflows of resources. In the governmental funds pension expense is recognized as an expenditure when it is due, and thus requires the use of current financial resources. | 373,406 |
| Pension expense in the statement of activities is recognized as the change in net pension liabilities including the amortization of layered deferred outflows and deferred inflows of resources of the current and prior periods, this does not require use of current financial resources, and therefore is not reported in the governmental funds. | (212,282) |
| Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | |
| Delinquent property taxes | (5,508) |
| Postemployment benefits payable in the Statement of Activities differs from the amount reported in the governmental funds because this benefit is recognized as an expenditure in the funds when due. In the Statement of Activities, postemployment benefits payable is recognized when accrued. | |
| Compensated Absences | 6,595 |
| Other postemployment benefits | (66,320) |
| Change in Net Position - Governmental Activities | $ 85,075 |

The Notes to the Financial Statements are an Integral Part of These Statements.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

| | Private Purpose Trust | Other Post-Employment Benefit Trust |
|---|---|---|
| **Assets:** | | |
| Cash and Cash Equivalents | $ 699,018 | $ 816,706 |
| Interest Receivable | 1,841 | 4,277 |
| Total Assets | 700,859 | 820,983 |
| **Liabilities** | | |
| OPEB Reimbursement | 0 | 188,080 |
| **Net Position** | | |
| Held in Trust for Private Purposes/OPEB Beneficaries | $ 700,859 | $ 632,903 |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| | Private Purpose Trust | Other Post-Employment Benefit Trust |
|---|---|---|
| **Additions:** | | |
| Gifts and Bequets | $ 19,650 | $ 0 |
| Net Increase (Decreases) in Fair Value of Investments | 0 | 91 |
| Interest Income | 4,469 | 7,825 |
| Total Additions | 24,119 | 7,916 |
| **Deductions:** | | |
| Fees | 0 | 250 |
| Scholarships | 19,750 | 0 |
| OPEB Reimbursements | 0 | 188,080 |
| Total Deductions | 19,750 | 188,330 |
| **Change in Net Position** | 4,369 | (180,414) |
| Net Position - Beginning | 696,490 | 813,317 |
| Net Position - Ending | $ 700,859 | $ 632,903 |

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following represents the significant accounting policies used by the District.

**Reporting Entity -** Independent School District No. 314 is an instrumentality of the State of Minnesota chartered as an educational institution under the fiscal control of the Board of Education. The District's Board consists of seven members; the District Superintendent serves as a nonvoting member. The majority of the District's funding is provided by property tax and state aid.

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate organizations for which the District (primary government) is financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria used to determine if the primary government is financially accountable for a potential component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing board, 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 conducted primarily by student participants under the guidance of an adult. In accordance with Minnesota statutes, the District's school board has not elected to control or be otherwise financially accountable with respect to the extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in the District financial statements. Following the District report, separate reports and schedules are presented on the student accounts.

**Basis of Presentation** The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2010. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

**District-wide and Fund Financial Statements -** The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. The effect of interfund activity has been removed from the District-wide statements. These statements include all the financial activities of the District, except for the fiduciary funds. Fiduciary Funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the Fund Financial Statement level.

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

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

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

The fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose trust). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

**Measurement Focus and Basis of Accounting -** The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-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 or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this propose, the District considers revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2014 payable in the 2015 levy has been recognized as revenue during the current year, as discussed in Note 10. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

**Description of Funds -** The accounts of the District are organized on the basis of funds established by the State of Minnesota, Department of Education, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

The District reports the following funds:

*Governmental Funds*

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources and transactions except those required to be accounted for in another find.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specific purposes. The District's special revenue funds and their purposes are as follows:

Food Service Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

Community Service - Accounts for the resources designated for programs other than those for elementary and secondary students.

Building Construction Fund - The building construction fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Debt Service Funds - The debt service fund is used to account for the accumulation of resources for, and the payments of, long-term debt principal, interest and related costs. The regular debt service account is used for all general obligation bond debt service except for the OPEB bond issue, for which a separate trust account has been established.

*Fiduciary Funds*

Private-Purpose Trust Fund - This fund is used to report scholarship trust arrangements under which principal and income benefit individuals.

Other Postemployment Benefit Trust - The Other Postemployment Benefit Trust Fund is used to account for resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. The general, building construction, and debt service funds are the major funds by definition; however, the District has elected to present all funds as major funds, which is an option permitted by the statement.

GASB Statement No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

**Risk Management -** The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees; and natural disasters for which the District carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Estimates -** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Compensated Absences -** A liability has been recorded for severance benefits that meet the four criteria of Governmental Accounting Standards Board (GASB) Cod. Sec. C60.105.

**Cash and Temporary Investments –** The District maintains a cash pool that is used by all District funds. Earnings are allocated to the respective funds based upon each fund's share of the pool. In accordance with GASB Statement No. 31, the investment pool is valued at fair value and the certificates of deposit are valued at cost. The District does not value any investments at amortized cost.

**Property Taxes -** Current property taxes receivable represents taxes levied in 2014, which are not payable until 2015.

Property taxes levied for subsequent year represents the 2014 payable 2015 property taxes that are not to be recognized as revenue until the 2015-2016 fiscal year. The balance equals the levy less the amount recognized in the current fiscal year as property tax shift revenue,

The District levies its property tax for the subsequent year before the end of the calendar year and certifies its levy to the County, which acts as the collection agency. The taxes become a lien against the property on which they are assessed on the levy date. Property taxes are due and payable at the County on May 15 and October 15 of each year and collections are remitted to the District in June and November.

Delinquent taxes receivable represents levies due to be collected during 2014 and prior years which remain uncollected at June 30, 2015. Such amounts are fully offset by deferred revenue because they are not known to be available to finance current expenditures. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

**Inventories -** Inventory consists of purchased food on hand at June 30, 2015, which is valued at cost, and food commodities inventory, which is valued at a standardized commodities cost as determined by the United States Department of Agriculture.

The District does not maintain a central store for other supply items. Therefore, expenditures are recognized when the items are purchased.

**Prepaid Expenses -** Prepaid expenses consist of amounts paid during the year ended June 30, 2015 which will benefit future periods. Included in the amount is fuel and supplies purchased for use in future periods and certain payments to vendors and insurance premiums applicable to future accounting periods.

**Capital Assets** - Capital assets are capitalized at historical cost, or estimated historical cost where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $1,000 or more for capitalizing assets.

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

Capital assets not being depreciated include land and construction in progress, if any.

**Deferred Outflows/Inflows of Resources -** In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent property taxes and property taxes levied for subsequent year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Long-term Obligations -** In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are delayed and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

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

Note 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

**Deposits -** The District maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed as "Cash and temporary investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School Board.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statues for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government, rated "A" or better; revenue obligations of a state or local government, rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency.

Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At June 30, 2015, the District's deposits had a carrying amount of $772,130 and a bank balance of $867,473. All of the bank balance was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

**Investments -** The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- 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 and receiving the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen 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 banks, corporations or their Canadian subsidiaries, of
- highest quality category by at least two nationally recognized rating agencies, and maturing in
- 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements 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, 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 had the following investments as of June 30, 2015:

| Investment held with broker - | *Fair Value* |
|---|---|
| MN School District Liquid Asset Fund | $ 929,289 |
| Money funds | 162,397 |
| Securities | 654,309 |
| | **$ 1,745,995** |

Note 2 CASH, CASH EQUIVALENTS AND INVESTMENTS-(Continued)

The MN School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2a-7 of the Investment Company Act of 1940. The fair value of the position in the pool is the same as the value of the pool shares.

The investment risk disclosures are described in the following paragraphs.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy.

**Credit Risk** - Credit risk is defined as the risk that an issue or other counterparty will not fulfill its obligation. The investments of the District are limited to the MN School District Liquid Asset Fund, which only allows investments in accordance with Minnesota Statute 118A. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the District's investment policy to manage its exposure to concentration of investments by issuers by only investing in the MN School District Liquid Asset Fund.

A reconciliation of the District's cash and investments to the balance sheet is presented below.

| | *Governmental Funds* | *Fiduciary Funds* |
|---|---|---|
| Cash deposits | $ 73,114 | $ 699,018 |
| Investments | 929,289 | 816,706 |
| **Total cash and investments** | **$ 1,002,403** | **$ 1,515,724** |

Note 3 FUND BALANCE/NET POSITION

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

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

**Fund Balance** - In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

**Unassigned Fund Balance -** Represents resources available to meet current and future years' expenditures.

**Committed Fund Balance -** Represents amounts constrained for a specific purpose by the School Board. It requires action by the School Board to remove or change the constraints placed on the resources. As of June 30, 2015 the District did not have a committed fund balance.

Note 3 FUND BALANCE/NET POSITION-(Continued)

**Assigned Fund Balance -** Represents amounts constrained by the District's intent to be used for a specific purpose, but are not restricted or committed. Intent is expressed by the School Board itself, or an official to which the School Board has delegated the authority to assign amounts to be used for specific purposes. The actions to remove or modify assignments are not as strict as for committed fund balance. As of June 30, 2015 the District did not have an assigned fund balance.

**Nonspendable Fund Balance -** Represents amounts that cannot be spent due to form such as inventories and prepaid accounts. This also includes amounts that must be maintained intact legally or contractually. Nonspendable fund balance amounts at June 30, 2015 are as follows:

| | | |
|---|---|---|
| General – Prepaid expenses | $ | 50,858 |
| Food service – Inventory | | 11,324 |
| **Total nonspendable fund balance** | **$** | **62,182** |

**Restricted Fund Balance –** Represents amounts that can be spent only for the specific purpose by construction, external resource providers, or through enabling legislation. Constraints are placed on the use of resources either by: externally imposed creditors, grantors, contributions, or laws or regulations of other governments; or imposed by law though constitutional provisions of enabling legislation. Restrictions of fund balances at June 30, 2015 are as follows:

| | | |
|---|---|---|
| *General Fund* | | |
| Deferred maintenance | $ | 4,041 |
| Health and safety | | (113,227) |
| Teacher Development | | 362 |
| Safe school crime | | (4,299) |
| Reclassified to unassigned fund balance | | (113,123) |
| *Special Revenue Funds* | | |
| Community education | | 12,730 |
| ECFE | | (10,430) |
| School readiness | | 1,559 |
| Community service | | 5,542 |
| Food Service | | 22,993 |
| | | 32,394 |
| *Debt Service Fund* | | |
| Debt Service | | 325,354 |
| **Total restricted fund balance** | **$** | **357,748** |

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District has formally adopted a fund balance policy for the General fund. The District's policy is to maintain a minimum unassigned fund balance of 20-25 percent of budgeted operating expenditures for cash-flow timing needs.

Note 4 STEDARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year-end. The District does not use encumbrance accounting.

On or before July 1 of each year, all departments of the District submit requests for appropriations to the Superintendent so that a budget may be prepared. Before September 15, the proposed budget is presented to the Board of Education for review. The Board holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The District's department heads, with the approval of the Superintendent, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the Board.

**Excess of Expenditures over Appropriations**

For the year ended June 30, 2015, the Food Service, and Community Service fund had expenditures over appropriations of $10,409, and $38, respectively. Excess of expenditures over appropriations were funded through available fund balance.

**Deficit Fund Equity**

No funds had a deficit balance as of June 30, 2015.

Note 5 CAPITAL ASSETS

Activity in capital assets for the District for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 310,600 | $ - | $ - | $ 310,600 |
| Capital assets being depreciated | | | | |
| Land improvements | 3,488,674 | - | - | 3,488,674 |
| Buildings | 10,918,944 | 358,735 | - | 11,277,679 |
| Machinery and equipment | 1,394,980 | 107,090 | (48,573) | 1,453,497 |
| Total capital assets being depreciated | 15,802,598 | 465,825 | (48,573) | 16,219,850 |
| Less accumulated depreciation for | | | | |
| Land improvements | (776,167) | (167,049) | - | (943,216) |
| Buildings | (5,022,805) | (280,119) | - | (5,302,924) |
| Machinery and equipment | (943,408) | (96,929) | 43,416 | (996,921) |
| Total accumulated depreciation | (6,742,379) | (544,097) | 43,416 | (7,243,061) |
| Total capital assets being depreciated, net | 9,060,219 | (78,272) | (5,157) | 8,976,789 |
| **Capital assets, net** | **$ 9,370,819** | **$ (78,272)** | **$ (5,157)** | **$ 9,287,389** |

Depreciation expense of $544,097 for the year ended June 30, 2015 was charged to the following functions or programs:

| | |
|---|---|
| Administration | $ 6,017 |
| District support | 10,575 |
| Regular instruction | 44,880 |
| Vocational support | 1,273 |
| Exceptional instruction | 1,921 |
| Community education | 1,738 |
| Pupil support | 12,784 |
| Site, buildings and equipment | 122,871 |
| Unallocated | 342,038 |
| **Total depreciation expense** | **$ 544,097** |

Note 6 LONG-TERM DEBT

The District's long-term liabilities consisted of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| *General obligation bonds* | | | | | |
| 2009 Alternative facilities | $ 2,520,000.00 | $ - | $ - | $ 2,520,000.00 | $ - |
| 2009 Capital facilities | 390,000 | - | (35,000) | 355,000 | 35,000 |
| 2009 OPEB bonds | 1,245,000 | - | (90,000) | 1,155,000 | 95,000 |
| 2013 Refunding | 2,705,000 | - | (515,000) | 2,190,000 | 555,000 |
| | 6,860,000 | - | (640,000) | 6,220,000 | 685,000 |
| Add (less) unamortized | | | | | |
| Discount | (17,600) | - | 1,618 | (15,982) | - |
| Premium | 124,507 | - | (27,165) | 97,342 | - |
| | 6,966,907 | - | (665,547) | 6,301,360 | - |
| *Other long-term debt* | | | | | |
| Capital leases | 806,129 | 60,628 | (78,882) | 787,875 | 79,721 |
| Severance payable | 195,537 | - | (51,211) | 144,326 | - |
| Vacation payable | 25,145 | - | (6,595) | 18,550 | 5,050 |
| **Total long-term debt** | **$ 7,993,718** | **$ 60,628** | **$ (802,235)** | **$ 7,252,111** | **$ 769,771** |

Interest expense for the year ended June 30, 2015 was $312,451.

General obligation bonds payable at June 30, 2015 consisted of the following issues:

| | Original Amount | Issue Date | Maturity Date | Interest Rate | Ending Balance |
|---|---|---|---|---|---|
| *General obligation bonds* | | | | | |
| 2009 Alternative facilities | $ 2,520,000 | 4/7/2009 | 2/1/2023 | 4.00 - 4.25% | $ 2,520,000 |
| 2009 Capital facilities | 515,000 | 4/7/2009 | 2/1/2024 | 3.00 - 4.40% | 355,000 |
| 2009 OPEB bonds | 1,550,000 | 9/16/2009 | 2/1/2025 | 1.75 - 5.50% | 1,155,000 |
| 2013 Refunding | 2,705,000 | 12/4/2013 | 2/1/2019 | 2.00 - 3.00% | 2,190,000 |
| | | | | | **$ 6,220,000** |

Note 6 LONG-TERM DEBT-(Continued)

The annual debt service requirements to maturity for all bonds outstanding as of June 30, 2015 are as follows:

| Year Ending June 30 | Principal | Interest |
|---|---|---|
| 2016 | $ 685,000 | $ 237,900 |
| 2017 | 700,000 | 215,838 |
| 2018 | 730,000 | 193,325 |
| 2019 | 680,000 | 196,325 |
| 2020 | 730,000 | 150,475 |
| 2021-2025 | 2,695,000 | 287,273 |
| Total | $ 6,220,000 | $ 1,281,136 |

Severance payable - Employees leaving active services (including death or termination) are entitled to the following severance amounts.

| ***Group*** | ***Eligibility*** | ***Severance Payment*** |
|---|---|---|
| District office (hired before 5/20/2002)* | 10 yrs of service | $6,600 lump sum |
| | 15 yrs of service | $8,600 lump sum |
| | 20 yrs of service | $10,600 lump sum |
| | 25 yrs of service | $11,600 lump sum |
| Teachers (hired before 7/1/1995) | 15 yrs of service | 65% of unused sick leave times pay, less any District 403(b) contributions (max $26,000 403(b) contribution) |
| Custodians | 8 yrs of service | $4,500 lump sum |
| | 10 yrs of service | $6,000 lump sum |
| Secretary/Para | 10 yrs of service | $1,700 lump sum |
| | 15 yrs of service | $3,100 lump sum |
| | 20 yrs of service | $5,000 lump sum |
| Food Service | 10 yrs of service | $1,700 lump sum |
| | 15 yrs of service | $3,100 lump sum |

*Severance benefits for District Office employees hired before 1/1/2004 are limited to 110% of severance benefit, less total District 403(b) contributions of up to $7,000.

According to the District's recent actuarial study on July 1 2014, the estimated severance liability at June 30, 2015 is $151,862.

Note 7 CAPITAL LEASE

During the year ended June 30, 2011 the District entered into a lease agreement for energy efficiency improvements. Additionally, the during the year ended June 30, 2015 the District entered into a lease agreement for computer equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the purchase date.

| *Asset* | ***Amount*** |
|---|---|
| Building improvements | $ 3,223,953 |
| Equipment | 60,628 |
| | 3,284,581 |
| Less; Accumulated depreciation | 889,618 |
| **Total** | **$ 2,394,963** |

The future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2013 is as follows:

| *Years ending June 30,* | ***Amount*** |
|---|---|
| 2015 | $ 119,691 |
| 2016 | 119,691 |
| 2017 | 98,365 |
| 2018 | 98,365 |
| 2019 | 98,365 |
| 2020-2024 | 491,825 |
| 2025 | 73,773 |
| | 1,100,075 |
| Less: Amount representing interest | (213,834) |
| **Present Value of Minimum Lease Payments** | $ **787,876** |

Note 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

***A. Plan Description***

The District offers a single-employer retiree benefit healthcare plan ("The Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through age 65 through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation between the District and unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

***B. Funding Policy***

The District is funding this liability through issuance of series 2009B general obligation bonds and on a pay-as-you go basis. The District is amortizing the initial unfunded accrued liability over a 30 year open period.

Note 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS-(Continued)

***C. Annual OPEB Cost and Net OPEB Obligation***

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty 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 changes in the District's net OPEB obligation to the plan.

| | |
|---|---|
| Annual required contribution | $ 96,682 |
| Interest on prior OPEB obligation | (29,756) |
| Adjustment on annual required contribution | 50,604 |
| Annual OPEB cost | 117,530 |
| Amounts contributed – payment of annual premiums | - |
| Amounts contributed – implicit subsidy benefits | - |
| Increase (decrease ) in Net OPEB obligation | 117,530 |
| Net OPEB obligation - beginning of year | (991,850) |
| **Net OPEB obligation - end of year** | **$ (874,320)** |

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation/asset for the current and preceding two years were as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|---|
| 6/30/13 | 7/01/11 | 117,500 | 0% | (1,110,482) |
| 6/30/14 | 7/01/11 | 118,632 | 0% | (991,850) |
| 6/30/15 | 7/01/14 | 117,530 | 0% | (874,319) |

***D. Funding Status and Funding Progress***

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $1,614,136, and the actuarial value of assets was $813,317, resulting in an unfunded actuarial accrued liability (UAAL) of ($800,819). The covered payroll (annual payroll of active employees covered by the plan) was $5,119,391, and the ratio of the UAAL to the covered payroll was 15.6 percent.

The District does not have a contractual obligation to pay healthcare benefits for eligible retirees or their spouses. The annual required contribution of $96,682 and the actuarial accrued liability of $1,614,136 reflect an implicit rate subsidy and some direct subsidy payments. The District declines to fund these liabilities and then return the proceeds to itself.

Note 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS-(Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***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 employees) 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 employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

On the July 1, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.00% (net of administrative expenses) investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5.0% after eight years. Both rates included a 2.75% inflation assumption. The district contribution annual limit of $6,714 at July1, 2014, is assumed to increase 3.0% per year. The UAAL is being amortized as a level dollar amount on a 30 year open basis.

Note 9 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), both of which are administered on a statewide basis.

**TEACHERS RETIREMENT ASSOCIATION**

***A. Plan Description***

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

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

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

***B. Benefits Provided***

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

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

| **Tier I** | **Step Rate Formula** | **Percentage** |
|---|---|---|
| **Basic:** | 1st ten years | 2.2 percent per year |
| | All years after | 2.7 percent per year |
| **Coordinated:** | 1st ten years if service years are prior to July 1, 2006 | 1.2 percent per year |
| | 1st ten years if service years are July 1, 2006 or after | 1.4 percent per year |
| | All other years of service if service years are prior to July 1, 2006 | 1.7 percent per year |
| | All other years of service if service years are July 1, 2006 or after | 1.9 percent per year |

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) 3 percent per year early retirement reduction factors 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).

Or

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

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

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 which have survivorship features. Vested members may also leave their contribution 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 contribution plus interest.

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

***C. Contribution Rate***

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

| | Ending June 30, 2014 | | Ending June 30, 2015 | |
|---|---|---|---|---|
| Plan | Employee | Employer | Employee | Employer |
| Basic | 10.5% | 11.0% | 11.0% | 11.5% |
| Coordinated | 7.0% | 7.0% | 7.5% | 7.5% |

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

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

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

***D. Actuarial Assumptions***

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

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

| | |
|---|---|
| **Actuarial Information:** | |
| Measurement Date | June 30, 2014 |
| Valuation Date | July 1, 2014 |
| Experience Study | October 30, 2009 |
| Actuarial Cost Method | Entry Age Normal |
| **Actuarial Assumption:** | |
| Investment Rate of Return | 8.25% |
| Wage Inflation | 3.0% |
| Projected Salary Increase | 3.5 – 12%, based on years of service |
| Cost of Living Adjustment | 2.0% until year 2034; 2.5% thereafter |
| **Mortality Assumption:** | |
| Pre-retirement | RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years |
| Post-retirement | RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years |
| Post-disability | RP 2000 disabled retiree mortality, without adjustment |

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

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

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

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

***E. Discount Rate***

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

***F. Net Pension Liability***

On June 30, 2015, the District reported a liability of $3,626,439 for its proportionate share of the 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 TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0787% at the end of the measurement period and 0.0855% for the beginning of the year.

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

| | |
|---|---|
| District's proportionate share of net pension liability | $ 3,626,439 |
| State's proportionate share of net pension liability associated with the District | 255,005 |

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

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

For the year ended June 30, 2015, the district recognized pension expense of $126,497. It also recognized $11,124 as an increase to pension expense for the support provided by direct aid.

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

| | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
|---|---|---|
| Differences between expected and actual experience | $ 309,433 | $ - |
| Net difference between projected and actual earnings on plan investments | - | 1,140,116 |
| Contributions paid to TRA subsequent to measurement date | 270,215 | |
| Changes in proportion | - | 322,717 |
| **Total** | $ 579,648 | $ 1,462,833 |

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

$270,215 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

| Year ended June 30: | Pension Expense |
|---|---|
| 2016 | $ (287,802) |
| 2017 | $ (287,802) |
| 2018 | $ (287,802) |
| 2019 | $ (287,802) |
| 2020 | $ (2,191) |
| Thereafter | $ 0 |

***G. Pension Liability Sensitivity***

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

**District's proportionate share of NPL**

| 1 Percent Decrease | Current | 1 Percent Increase |
|---|---|---|
| (7.25%) | (8.25%) | (9.25%) |
| $ 5,993,262 | $ 3,626,439 | $ 1,653,327 |

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

***H. Pension Plan Fiduciary Net Position***

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

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

***A. Plan Description***

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

*General Employees Retirement Plan (GERF)*
All full-time and certain part-time employees other than teachers of the District 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.

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

***B. Benefits Provided***

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

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

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

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

***C. Contributions***

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District’s contributions to the GERF for the year ended June 30, 2015, were $102,510. The District’s contributions were equal to the required contributions for each year as set by state statute.

***D. Pension Costs***

At June 30, 2015, the District reported a liability of $1,155,585 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2014, the District’s proportion was 0.0246%. For the year ended June 30, 2015, the District recognized pension expense of $85,785 for its proportionate share of GERF’s pension expense.

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 17,735 | |
| Net difference between projected and actual earnings on plan investments | | $ 312,238 |
| Changes in actuarial assumptions | 119,095 | |
| Contributions paid to PERA subsequent to the measurement date | 102,510 | |
| Changes in proportion | - | |
| **Total** | $ 239,340 | $ 312,238 |

$102,510 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| Year ended June 30: | Pension Expense |
|---|---|
| 2016 | $ (32,450) |
| 2017 | $ (32,450) |
| 2018 | $ (32,450) |
| 2019 | $ (78,060) |
| 2020 | $ 0 |
| Thereafter | $ 0 |

### *E. Actuarial Assumptions*

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

| | |
|---|---|
| **Actuarial Information:** | |
| Measurement Date | June 30, 2014 |
| Valuation Date | July 1, 2014 |
| Actuarial Cost Method | Entry Age Normal |
| **Actuarial Assumption:** | |
| Investment Rate of Return | 7.90% |
| Inflation | 2.75% per year |
| Projected Salary Increase | 3.50% per year |

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

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

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2014:

- GERF and MERF: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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

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

### *F. Discount Rate*

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *G. Pension Liability Sensitivity*

The following 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:

| **District's proportionate share of NPL** | | |
|---|---|---|
| 1 Percent Decrease | Current | 1 Percent Increase |
| (6.90%) | (7.90%) | (8.90%) |
| $ 1,862,849 | $ 1,155,585 | $ 573,672 |

Note 9 DEFINED BENEFIT PENSION PLANS-(Continued)

***H. Pension Plan Fiduciary Net Position***

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

Note 10 PROPERTY TAX SHIFTS

For the fiscal year ended June 30, 2015, the State of Minnesota has estimated the tax shift at 0.0% with the following exceptions:

- Operating referendum (with no aid adjustment) is the Pay2001 levy shifted at 31%
- Career Technical levy is shifted at 100% with no aid adjustment
- Reemployment insurance and related adjustments shifted at 100%

The amount shifted in the general fund for the year ended June 30, 2015 was ($11,583).

Note 11 CONTINGENCIES

The District participates in a number of federally assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the individual fund types included herein or on the overall financial position of the District at June 30, 2015.

Note 12 JOINT VENTURE

Pursuant to an agreement authorized by state statutes, the District joined with six other Districts to establish the Rum River Special Education Cooperative (RRSEC), an entity through which the member District's may jointly and cooperatively share services that no one District could efficiently provide. One member of the School Board of each member District serves on the governing Board of the RRSEC. The operating and capital budget are charged to member Districts based on the annual assessment manual which allocates costs based on enrollment and program usage. RRSEC is an agency of seven member school districts that have joined together to provide services to students ages B-21, identified as having a disability. The RRSEC also provides resources and staff development to school staff, administrators and parents/guardians. This technical assistance helps support districts in their efforts to provide appropriate services to all children with disabilities that might otherwise be difficult for an individual school district to provide. For the year ended June 30, 2015, the cost of services provided to the District by RRSEC was $318,556. RRSEC is separately audited from the District, complete financial statements can be obtained by contacting the RRSEC business office, Rum River Special Education Cooperative District 6079, 140 Buchanan Street North, Suite 150 Cambridge, MN 55008.

Note 13 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the District implemented GASB 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to comprehensively and comparably measure the annual costs of pension benefits. The effect of this change in accounting principle resulted in an adjustment to the beginning net position on the statement of activities of $5,899,232 to record pension obligations in accordance with GASB 65.

REQUIRED SUPPLEMENARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION
Year Ended June 30, 2015

| Actuarial Valuation Date | Actuarial Value of Plan assets | Actuarial accrued liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of covered payroll |
|---|---|---|---|---|---|---|
| 7/01/2008 | $ - | $ 1,514,753 | $ 1,514,753 | 0.0% | $ 3,296,512 | 46.0% |
| 7/01/2011 | $ 1,238,679 | $ 1,704,787 | $ 466,108 | 72.7% | $ 3,936,870 | 11.8% |
| 7/01/2014 | $ 813,317 | $ 1,614,136 | $ 800,918 | 50.4% | $ 5,119,391 | 15.6% |

The District implemented GASB Statement No. 45 for fiscal year ended June 30, 2009. Information for prior years is not available.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONARE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
(Last 10 Fiscal Years)

| Fiscal Year Ending | District's proportion of the net pension liability | District's proportionate share of the net pension liability (asset) | District's covered employee payroll | District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| June 30, 2015 | 0.0246 | $ 1,155,585 | $ 1,398,207 | 82.6% | 78.8% |

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONARE SHARE OF NET PENSION LIABILITY
TEACHERS RETIREMENT ASSOCIATION
(Last 10 Fiscal Years)

| **Fiscal Year Ending** | **District's proportion of the net pension liability** | **District's proportionate share of the net pension liability (asset)** | **State's proportionate share of the net pension liability (asset) associate with the district** | **Total** | **District's covered employee payroll** | **District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll** | **Plan fiduciary net position as a percentage of the total pension liability** |
|---|---|---|---|---|---|---|---|
| June 30, 2015 | 0.0787% | $ 3,626,439 | $ 255,005 | $ 3,881,444 | $ 3,590,761 | 101.0% | 81.5% |

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
(Last 10 Fiscal Years)

| Fiscal year ending | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | District's covered employee payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|
| June 30, 2015 | $ 102,510 | $ 102,510 | $ 0 | $ 1,398,207 | 7.3% |

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TEACHERS RETIREMENT ASSOCIATION
(Last 10 Fiscal Years)

| Fiscal year ending | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | District's covered employee payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|
| June 30, 2015 | $ 251,353 | $ 251,353 | $ 0 | $ 3,590,761 | 7.0% |

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| | Original Budget | Final Budget | Actual Amount | Over (Under) Budget |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Local Property Taxes | $ 499,771 | $ 502,398 | $ 504,638 | $ 2,240 |
| Other Local and County Revenues | 189,508 | 171,746 | 195,764 | 24,018 |
| Revenue From State Sources | 7,005,758 | 6,897,344 | 6,780,961 | (116,383) |
| Revenue From Federal Sources | 326,066 | 290,868 | 283,674 | (7,194) |
| Sales and Other Conversion of Assets | (1,150) | (1,115) | 889 | 2,004 |
| Total Revenues | 8,019,953 | 7,861,241 | 7,765,926 | (95,315) |
| **Expenditures:** | | | | |
| District and School Administration | 526,472 | 562,876 | 563,268 | 392 |
| District Support Service | 514,461 | 494,687 | 497,977 | 3,290 |
| Regular Instruction | 4,141,004 | 4,041,446 | 3,909,570 | (131,876) |
| Vocational Instruction | 113,401 | 116,171 | 122,372 | 6,201 |
| Exceptional Instruction | 1,097,001 | 1,162,230 | 1,115,204 | (47,026) |
| Instructional Support Services | 231,436 | 198,247 | 270,254 | 72,007 |
| Pupil Support Services | 879,964 | 790,677 | 802,365 | 11,688 |
| Sites, Buildings, and Equipment | 1,135,913 | 1,155,468 | 1,037,653 | (117,815) |
| Fiscal and Other Fixed Cost Programs | 130,808 | 130,265 | 129,932 | (333) |
| Total Expenditures | 8,770,460 | 8,652,067 | 8,448,595 | (203,472) |
| Net Change in Fund Balance | $ (750,507) | $ (790,826) | (682,669) | $ 108,157 |
| Fund Balance - Beginning | | | 773,305 | |
| Fund Balance - Ending | | | $ 90,636 | |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| | Original Budget | Final Budget | Actual Amount | Over (Under) Budget |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Other Local and County Revenues | $ 0 | $ 0 | $ 7 | $ 7 |
| Revenue From State Sources | 16,745 | 16,745 | 31,232 | 14,487 |
| Revenue From Federal Sources | 230,721 | 230,721 | 269,900 | 39,179 |
| Sales and Other Conversion of Assets | 177,155 | 177,155 | 185,211 | 8,056 |
| Total Revenues | 424,621 | 424,621 | 486,350 | 61,729 |
| **Expenditures:** | | | | |
| Pupil Support Services | 487,998 | 472,742 | 483,151 | 10,409 |
| Excess of Revenue Over (Under) Expenditures | $ (63,377) | $ (48,121) | 3,199 | $ 51,320 |
| Fund Balance - Beginning | | | 31,118 | |
| Fund Balance - Ending | | | $ 34,317 | |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| | Original Budget | Final Budget | Actual Amount | Over (Under) Budget |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Local Property Taxes | $ 66,100 | $ 66,100 | $ 40,086 | $ (26,014) |
| Other Local and County Revenues | 115,290 | 121,929 | 107,014 | (14,915) |
| Revenue From State Sources | 67,133 | 67,133 | 69,766 | 2,633 |
| Total Revenues | 248,523 | 255,162 | 216,866 | (38,296) |
| **Expenditures:** | | | | |
| Pupil Support Services | 1,750 | 1,750 | 787 | (963) |
| Community Education and Services | 238,235 | 225,880 | 226,881 | 1,001 |
| Total Expenditures | 239,985 | 227,630 | 227,668 | 38 |
| Excess of Revenue Over (Under) Expenditures | $ 8,538 | $ 27,532 | (10,802) | $ (38,334) |
| Fund Balance - Beginning | | | 20,203 | |
| Fund Balance - Ending | | | $ 9,401 | |

# NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

## Note 1 BUDGETARY INFORMATION

**Budgetary Data** The amounts shown in the financial statements as "Budgeted Amounts" represent the original adopted budget and the final amended budget as adopted by the School Board. Budgets are adopted annually by the Board.

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

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

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

3. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.

4. Budgets for the general and special revenue funds are adopted on a basis consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

**Compliance –** None of the Special Revenue Funds had expenditures in excess of appropriations.

## Note 2 PENSION INFORMATION

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the TRA CAFR.

SUPPLEMENARY INFORMATION SECTION

COMBINING BALANCE SHEET - DEBT SERVICE FUNDS
June 30, 2015

| | Regular Debt Service | Other Post-Employment Benefit Bonds | Totals |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Cash Equivalents | $ 677,992 | $ 105,661 | $ 783,653 |
| Property Taxes Receivable | 414,213 | 83,089 | 497,302 |
| Due From Minnesota Department of Revenue | 2,769 | 428 | 3,197 |
| TOTAL ASSETS | $ 1,094,974 | $ 189,178 | $ 1,284,152 |
| **DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE** | | | |
| **Deferred Inflows of Resources:** | | | |
| Unavailable Revenue - Delinquent Property Taxes | $ 35,331 | $ 6,380 | $ 41,711 |
| Property Taxes Levied For Subsequent Year | 762,677 | 154,410 | 917,087 |
| Total Deferred Inflows of Resources | 798,008 | 160,790 | 958,798 |
| **Fund Balance:** | | | |
| Restricted for Debt Service | 296,966 | 28,388 | 325,354 |
| TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | $ 1,094,974 | $ 189,178 | $ 1,284,152 |

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS
For the Year Ended June 30, 2015

| | Regular Debt Service | Other Post-Employment Benefit Bonds | Totals |
|---|---|---|---|
| **Revenue:** | | | |
| Local Property Taxes | $ 772,299 | $ 147,931 | $ 920,230 |
| Other Local and County Revenues | 183 | 21 | 204 |
| Revenue From State Sources | 27,687 | 4,283 | 31,970 |
| Total Revenues | 800,169 | 152,235 | 952,404 |
| **Expenditures:** | | | |
| Fiscal and Other Fixed Cost Programs | 759,472 | 152,170 | 911,642 |
| Excess of Revenues Over (Under) Expenditures | 40,697 | 65 | 40,762 |
| Fund Balance - Beginning | 256,269 | 28,323 | 284,592 |
| Fund Balance - Ending | $ 296,966 | $ 28,388 | $ 325,354 |

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| **01 GENERAL FUND** | | | |
| Total Revenue | $7,765,926 | $7,765,928 | ($2) |
| Total Expenditures | $8,448,595 | $8,448,596 | ($1) |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $50,858 | $50,858 | $0 |
| *Restricted / Reserved:* | | | |
| 4.03 Staff Development | $0 | $0 | $0 |
| 4.05 Deferred Maintenance | $4,041 | $4,041 | $0 |
| 4.06 Health and Safety | ($113,227) | ($113,227) | $0 |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.08 Cooperative Revenue | $0 | $0 | $0 |
| 4.09 Alternative Facility Program | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.14 Operating Debt | $0 | $0 | $0 |
| 4.16 Levy Reduction | $0 | $0 | $0 |
| 4.17 Taconite Building Maint | $0 | $0 | $0 |
| 4.23 Certain Teacher Programs | $0 | $0 | $0 |
| 4.24 Operating Capital | $0 | $0 | $0 |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.27 Disabled Accessibility | $0 | $0 | $0 |
| 4.28 Learning & Development | $0 | $0 | $0 |
| 4.34 Area Learning Center | $0 | $0 | $0 |
| 4.35 Contracted Alt. Programs | $0 | $0 | $0 |
| 4.36 State Approved Alt. Program | $0 | $0 | $0 |
| 4.38 Gifted & Talented | $0 | $0 | $0 |
| 4.40 Teacher Development and Evaluation | $362 | $362 | $0 |
| 4.41 Basic Skills Programs | $0 | $0 | $0 |
| 4.45 Career Tech Programs | $0 | $0 | $0 |
| 4.48 Achievement and Integration | $0 | $0 | $0 |
| 4.49 Safe School Crime - Crime Levy | ($4,299) | ($4,299) | $0 |
| 4.50 Pre-Kindergarten | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| 4.53 Unfunded Sev & Retiremt Levy | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Committed:* | | | |
| 4.18 Committed for Separation | $0 | $0 | $0 |
| 4.61 Committed Fund Balance | $0 | $0 | $0 |
| *Assigned:* | | | |
| 4.62 Assigned Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.22 Unassigned Fund Balance | $152,901 | $152,901 | $0 |
| **02 FOOD SERVICES** | | | |
| Total Revenue | $486,350 | $486,350 | $0 |
| Total Expenditures | $483,151 | $483,151 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $11,324 | $11,324 | $0 |
| *Restricted / Reserved:* | | | |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $22,993 | $22,993 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balancee | $0 | $0 | $0 |
| **04 COMMUNITY SERVICE** | | | |
| Total Revenue | $216,866 | $216,865 | $1 |
| Total Expenditures | $227,668 | $227,668 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.31 Community Education | $12,730 | $12,730 | $0 |
| 4.32 E.C.F.E | ($10,430) | ($10,430) | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.44 School Readiness | $1,559 | $1,559 | $0 |
| 4.47 Adult Basic Education | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $5,541 | $5,541 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| **06 BUILDING CONSTRUCTION** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $40,161 | $40,161 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.09 Alternative Facility Program | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | ($40,161) | ($40,161) | $0 |
| **07 DEBT SERVICE** | | | |
| Total Revenue | $800,169 | $800,168 | $1 |
| Total Expenditures | $759,472 | $759,472 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $296,966 | $296,964 | $2 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |
| **08 TRUST** | | | |
| Total Revenue | $24,119 | $24,119 | $0 |
| Total Expenditures | $19,750 | $19,750 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $700,859 | $700,859 | $0 |
| **20 INTERNAL SERVICE** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **25 OPEB REVOCABLE TRUST** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **45 OPEB IRREVOCABLE TRUST** | | | |
| Total Revenue | $7,916 | $7,916 | $0 |
| Total Expenditures | $188,330 | $188,330 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $632,903 | $632,903 | $0 |
| **47 OPEB DEBT SERVICE** | | | |
| Total Revenue | $152,235 | $152,236 | ($1) |
| Total Expenditures | $152,170 | $152,170 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.64 Restricted Fund Balance | $28,388 | $28,389 | ($1) |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

# OTHER REPORTS

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

November 16, 2015

Members of the School Board
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2015.

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

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

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

# FEDERAL AWARDS INFORMATION AND OTHER REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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

| Federal Funding Source | Federal CFDA Number | Grant Name | Expenditures |
|---|---|---|---|
| **Through Minnesota Department of Education** | | | |
| USDOA | 10.550 | Commodities Programs (Cluster) | $ 25,943 |
| USDOA | 10.553 | School Breakfast Program (Cluster) | 45,537 |
| USDOA | 10.555 | National Lunch Program (Cluster) | 196,754 |
| USDOA | 10.553 | Special Milk Program (Cluster) | 1,347 |
| Total Child Nutrition Cluster | | | 269,581 |
| USDOED | 84.010 | Title I, Part A | 172,646 |
| USDOED | 84.367 | Title II, Part A - Improving Teacher Quality | 22,700 |
| **Through Independent School District No. 911** | | | |
| USDOED | 84.027 | Special Education (Cluster) | 74,454 |
| USDOED | 84.173 | Special Education Early Childhood (Cluster) | 1,331 |
| Total Federal Special Education Cluster | | | 75,785 |
| USDOED | 84.181 | Infants and Toddlers | 4,052 |
| **Through Independent School District No. 139** | | | |
| USDOED | 0.000 | Carl Perkins | 8,491 |
| | | Total Federal Expenditures | $ 553,255 |

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

Note 1 GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards to Independent School District No. 314. The reporting entity is defined in Note 1 to the Districts' basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the schedule.

Note 2 BASIS FOR ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's basic financial statements.

Note 3 NONMONETARY ASSISTANCE

Nonmonetary assistance of $25,943 is reported in this schedule at the fair market value of commodities received and disbursed for the Food Donation Program (CFDA No. 10.550),

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# INDEPENDENT AUDITORS' 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*

November 16, 2015

Members of the School Board
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota (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 November 16, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2015-001 and 2015-002.

**Compliance and Other Matters**

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

**District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 16, 2015

Members of the School Board
Independent School District No. 314
Braham, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited the Independent School District No. 314's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Independent School District No. 314 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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 over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2015-001 and 2015-002.

**Purpose of this Report**

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

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

**Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the District.

2. Two significant deficiencies were disclosed during the audit of the financial statements of the District. None of the significant deficiencies are reported as material weakness.

3. No instances of noncompliance material to the basic financial statements of the District were disclosed during the audit.

4. The auditor's report on compliance for the major federal programs of the District expresses an unmodified opinion.

5. Audit findings relative to the major federal programs for the District are reported in Part 3 of this schedule.

6. The improving the academic achievement of the disadvantaged (CFDA No. 84.010) was tested as a major program.

7. The dollar threshold for distinguishing between Type A and Type B programs was $300,000.

8. The District does qualify as low-risk auditee.

**Findings- Financial Statements Audit**

**2015-001. Segregation of Duties**

*Condition:* The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

*Criteria:* Internal controls should be in place that provides reasonable assurance that proper segregation of duties is achieved.

*Cause:* The District has a limited number of office personnel and inadequate internal controls.

*Effect:* The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

*Recommendation:* While it is recognized that the District's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this situation.

**2015-001. Segregation of Duties – continued**

Corrective Acton Plan (CAP)

a) *Actions Planned in Response to the Finding:* The District has determined the benefit of adequately segregating duties is less than the cost. Based on this assessment, the District is accepting the risk posed by the deficiency while also evaluating mitigating controls that will help reduce the risk of material misstatement of the financial statements. Management is attempting to mitigate the associated risks by doing the following:

1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
3. Using the knowledge of management and the School Board to review accounting records and reports,

b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.

c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.

d) *Explanation of Disagreement:* There is no disagreement with the audit finding.

e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

**2015-002. Preparation of financial statements and related footnotes**

*Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. District personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and the School Board. However, the District does not have the internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.

*Criteria:* Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with GAAP, the preparer must have the necessary expertise.

*Cause:* The District does not have the resources to compile their own financial statements.

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

*Recommendation:* This control deficiency is not unusual in a small district. However, it is the responsibility of management and the School Board to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.

Corrective Acton Plan (CAP)

a) *Actions Planned in Response to the Finding:* The District does not plan to take any action but is aware of the condition. Based on the cost of correcting this deficiency, the District has decided to accept the risk associated with this deficiency.

**2015-002. Preparation of financial statements and related footnotes – continued**

b) *Official Responsible for Ensuring Corrective Action:* The Business Manager and Superintendent will review the financial statements and related footnotes and approve them

c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this funding will be ongoing.

d) *Explanation of Disagreement:* There is no disagreement with the audit finding.

e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan.

**Findings and Questioned Costs- Major Federal Programs Audit**

*Significant Deficiencies*- As discussed in part 2 of this schedule, significant deficiencies 2015-001 and 2015-002 related to Federal Award Programs.

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit contained two findings:

**2014-001. Segregation of Duties**

*Condition:* The District has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.

*Current status:* This condition is noted during the current year audit of the financial statements.

**2014-002. Preparation of Financial Statements**

*Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. This finding was again noted for the current year.

*Current status:* This condition is noted during the current year audit of the financial statements.

**2014-003. Material audit adjustments**

*Condition:* The audit firm proposed and the District posted to its general ledger journal entries to correct certain year-end cash balances

*Current status:* The corrective action plan has been completed as of June 30, 2015.

STUDENT ACTIVITY ACCOUNTS

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# INDEPENDENT AUDITOR'S REPORT

November 16, 2015

Members of the School Board, Advisors, and Students
Independent School District No. 314
Braham, Minnesota

***Report on the Financial Statements***

We have audited the accompanying financial statement of the cash receipts and disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2015, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in the Note to the financial statement; 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. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 314 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to the financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 314 as of June 30, 2015, or changes in financial position for the year then ended.

***Basis for Qualified Opinion on Regulatory Basis of Accounting***

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

***Qualified Opinion on Regulatory Basis of Accounting***

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 314 as of June 30, 2015, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 314
STUDENT ACTIVITY ACCOUNT
BRAHAM, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For The Year Ended June 30, 2015

| | Beginning Balance | Receipts | Disbursements | Ending Balance |
|---|---|---|---|---|
| Power Mechanics | $ - | $ 1,530.00 | $ 1,530.00 | $ - |
| FFA | - | 3,579.49 | 3,304.88 | 274.61 |
| Baseball | 768.19 | 1,512.31 | 641.04 | 1,639.46 |
| Echelon Jazz | 684.81 | 46.50 | - | 731.31 |
| Football | 7,626.59 | 10,414.31 | 5,181.02 | 12,859.88 |
| Interest Earned | 291.09 | 4.45 | - | 295.54 |
| Boys Basketball | 5,712.84 | 4,847.31 | 5,914.42 | 4,645.73 |
| Girls Basketball | 4,172.08 | 3,669.31 | 2,569.30 | 5,272.09 |
| Golf | 4,558.90 | 1,497.31 | 1,835.18 | 4,221.03 |
| Softball | 2,418.61 | 20,818.64 | 20,521.83 | 2,715.42 |
| Volleyball | 3,127.35 | 6,424.86 | 6,742.90 | 2,809.31 |
| Wrestling | 1,124.81 | 1,417.31 | 120.50 | 2,421.62 |
| Track | 1,416.18 | 2,407.31 | 1,764.11 | 2,059.38 |
| Jr. Choir Magazine Sales | 1,086.61 | 319.17 | - | 1,405.78 |
| Cross Country | 3,589.39 | 3,375.31 | 2,262.98 | 4,701.72 |
| Class of 2014 | 205.22 | - | 205.22 | - |
| Class of 2015 | - | 5,932.87 | 5,749.21 | 183.66 |
| Totals | $ 36,782.67 | $ 67,796.46 | $ 58,342.59 | $ 46,236.54 |

The Accompanying Note to the Financial Statement is an Integral Part of This Statement.

## Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fundraising events.

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE *MANUAL FOR STUDENT ACTIVITY ACCOUNTING*

November 16, 2015

To the School Board,
Advisors and Students
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statements of Receipts and Disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2015, and the related Notes to the Financial Statements and have issued our report thereon dated November 16, 2015.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123B.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this Manual.

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 *Manual for Student Activity Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we preformed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota