

SHAKOPEE PUBLIC SCHOOLS



SCHOOL BOARD AGENDA





Shakopee Public Schools
School Board Learning Session
Shakopee Public Schools District Office, 1200
Town Square, Shakopee, MN 55379

November 23, 2015
5:00 PM

1. CALL TO ORDER AND ROLL CALL - CHAIR BOWERMAN
2. Consideration of Agenda as presented and additions
3. 2014-15 Fiscal Audit 3
Presenter: Director of Finance Mike Burlager
Time: 20 minutes
4. Participatory Planning Update
Presenter: Scott McQueen, Wold Architects and Pat Overom, ICS Consultants
Time: 45 minutes
5. Areas of Interest: Discussion and Feedback 173
Presenter: Director of Teaching & Learning Nancy Thul
Time: 30 minutes
6. Change from Odd to Even Year Elections
Presenter: Superintendent Rod Thompson
Time: 5 minutes
7. Other
8. UPCOMING MEETINGS AND IMPORTANT DATES
December 14, 2015 Board Business Meeting 6:00PM
and Truth in Taxation Hearing
9. ADJOURNMENT

**INDEPENDENT SCHOOL DISTRICT NO. 720
Shakopee, Minnesota**

COMMUNICATIONS LETTER

Year Ended June 30, 2015



INDEPENDENT SCHOOL DISTRICT NO. 720

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PRELIMINARY



**REPORT ON MATTERS IDENTIFIED AS A RESULT OF
THE AUDIT OF THE FINANCIAL STATEMENTS**

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To the School Board and Management
Independent School District No. 720
Shakopee, Minnesota

In planning and performing our audit of the financial statements of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. The material weakness identified is stated within this letter.

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. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 19, 2015, on such statements.



This communication is intended solely for the information and use of management, the School Board and others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

MATERIAL WEAKNESS June 30, 2015

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended June 30, 2015, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

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

- The Director of Business Services has access to all areas of the accounting system.
- A single individual has the ability to receipt money, prepare the deposit, take the deposit to the bank and record the receipt in the general ledger.
- The Accountant enters capital asset additions and disposals, monitors and reviews asset lives and depreciation in the system and maintains the master asset listing.
- The Accounts Payable Clerk reviews invoices, enters invoices in the system and prints checks.
- The Payroll Clerk has the ability to enter time for an employee, prepare the payroll checks and print checks.
- There is no formal documentation of the review of monthly bank reconciliations.

The District has implemented periodic spot checks of accounts payable and payroll to review activity after checks have been run. This helps mitigate the risk associated with the lack of segregation of accounting duties, but it does not eliminate the risk.

INDEPENDENT SCHOOL DISTRICT NO. 720

**SIGNIFICANT DEFICIENCY
June 30, 2015**

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual for a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of Independent School District No. 720, Shakopee, Minnesota for the year ended June 30, 2015, and have issued our report dated November 19, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) *Circular A-133*.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB *Circular A-133*, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the OMB *Circular A-133* Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits and supplies.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Net Other Post Employment Benefits (OPEB) Obligation – This balance is based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

The financial statement disclosures are neutral, consistent and clear.

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State aid revenue and receivables are overstated

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The largest single funding source for Minnesota school districts is General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

General Education Aid Formula Allowance		
Year	Amount	Percent Increase
2005	\$ 4,601	0.0%
2006	4,782	4.0%
2007	4,974	4.0%
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%

* Of the \$ 529 increase over 2014, \$ 105 is for inflation at 1.9%; the remaining \$ 424 is a shifting (rather than an increase) of revenue to adjust for pupil weight changes, pension adjustment changes and other restructuring.

INDEPENDENT SCHOOL DISTRICT NO. 720

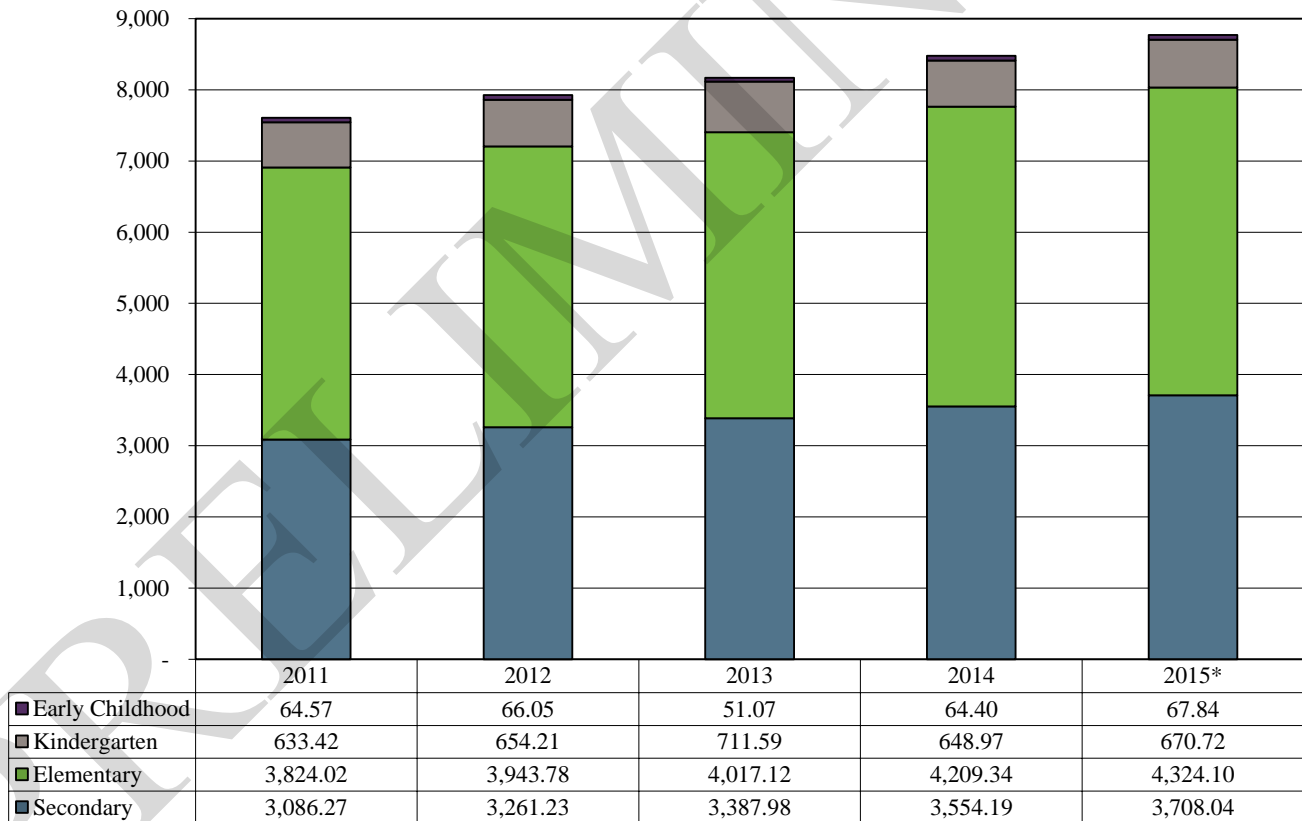
**FINANCIAL ANALYSIS
June 30, 2015**

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

Approximately 84% of the District’s General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District’s population trends is critical to overall budgeting plans. The following table and graph summarizes resident ADM of the District for the past five years ended June 30.

Resident ADM	2011	2012	2013	2014	2015*
Early Childhood	64.57	66.05	51.07	64.40	67.84
Kindergarten	633.42	654.21	711.59	648.97	670.72
Elementary	3,824.02	3,943.78	4,017.12	4,209.34	4,324.10
Secondary	3,086.27	3,261.23	3,387.98	3,554.19	3,708.04
Total Resident ADM	7,608.28	7,925.27	8,167.76	8,476.90	8,770.70

Resident ADM



* Estimate as of October 26, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The chart and graph on the previous page illustrate the steady increase in resident ADM experienced by the District over the past five years. Total resident ADM increased 15.3% since 2011 and 3.5% between 2014 and 2015.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

	Pupil Units Weighting					
	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
Fiscal Years 2011-2014	1.250	1.000	0.612	1.115	1.060	1.300
Fiscal Year 2015	1.000	1.000	1.000	1.000	1.000	1.200

The total pupil units are converted to adjusted pupil units, which also may be used to calculate the District's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

The weighted average daily membership (WADM) or pupil units (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

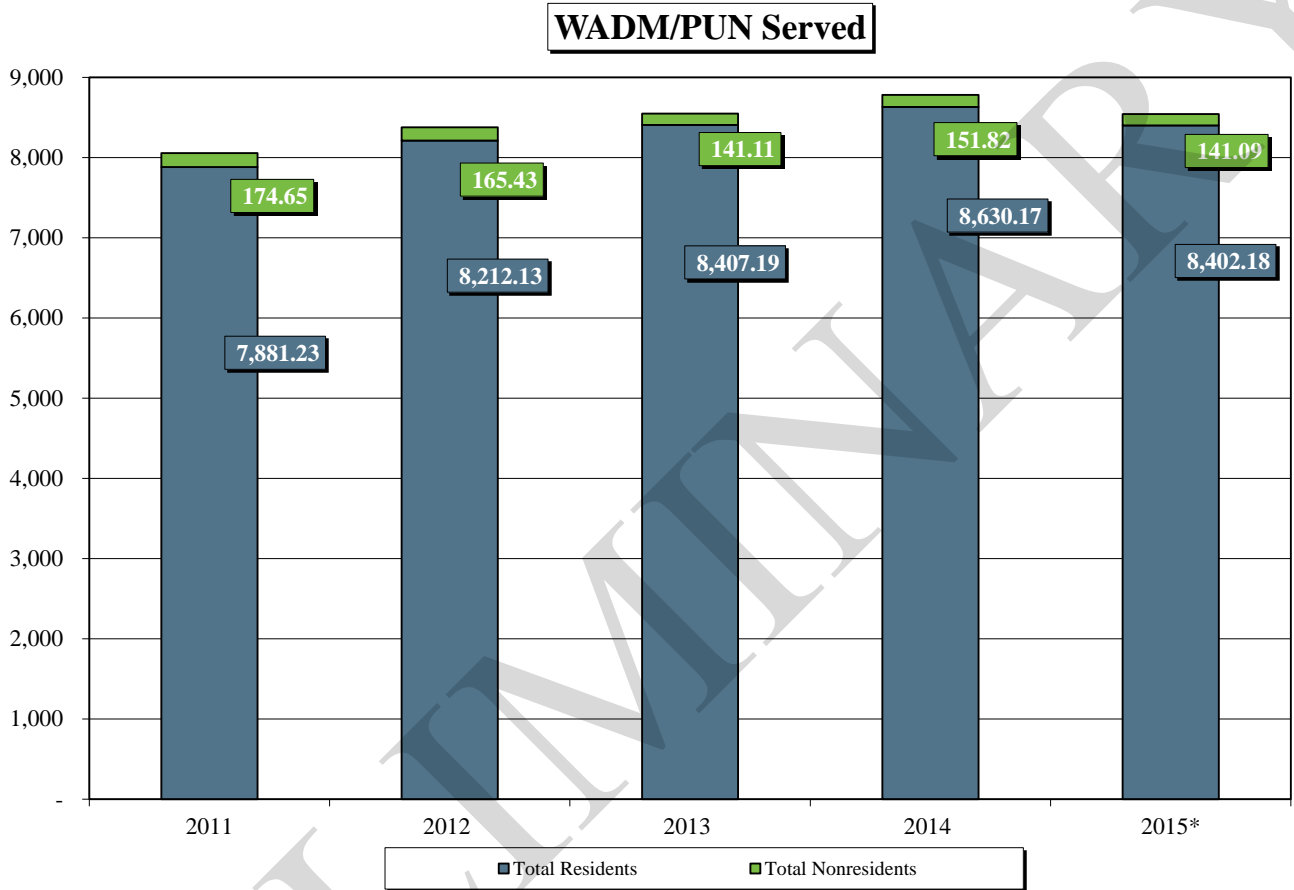
WADM/PUN	2011	2012	2013	2014	2015*
Residents	8,653.09	9,028.13	9,289.94	9,689.65	9,511.84
Resident WADM/PUN Loss	(771.86)	(816.00)	(882.75)	(1,059.48)	(1,109.66)
Nonresident WADM/PUN Gain	174.65	165.43	141.11	151.82	141.09
Total WADM/PUN Served	8,055.88	8,377.56	8,548.30	8,781.99	8,543.27

* Estimate as of October 26, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

WEIGHTED AVERAGE DAILY MEMBERSHIP/PUPIL UNITS SERVED



* Estimate as of October 26, 2015

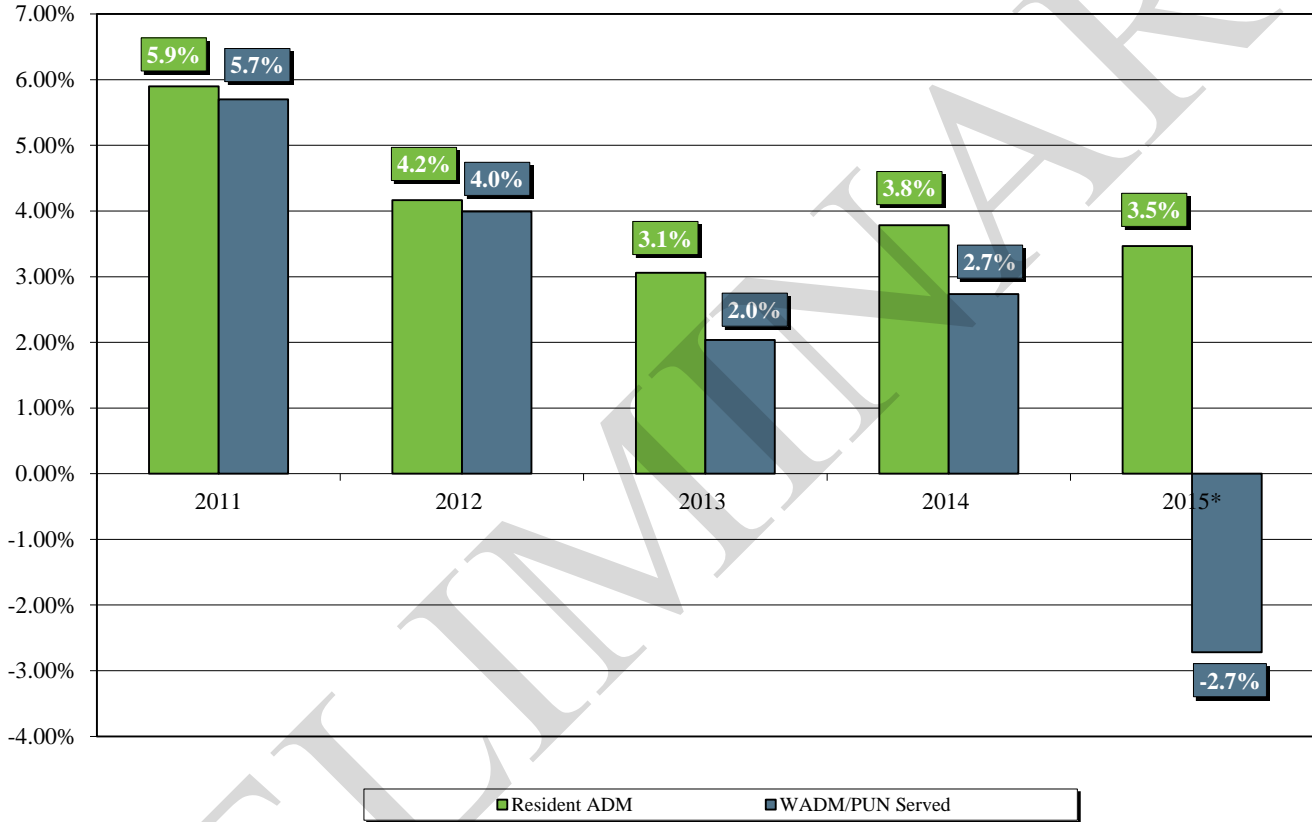
When considering the decrease in WADM/PUN between 2014 and 2015, it is important to note that the decrease is the result of a change in weighting factors that took effect for fiscal year 2015, as noted on the previous page. Despite an increase of 293.80 in resident ADM, WADM/PUN decreased 238.72 from 2014 to 2015, as noted earlier. Part of the decrease is related to the increase in the net loss related to open enrollment, while the majority of the decrease is related to the new weighting factors. Had the weighting factors not changed, resident WADM/PUN would have shown an increase of 353.24 from 2014. In an effort to hold districts harmless with the implementation of the new weighting system, the per pupil revenue formula increased an additional \$ 424 per pupil unit.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS
June 30, 2015

RESIDENT ADM AND WADM/PUN MEMBERSHIP SERVED

The following graph illustrates the percentage change from year-to-year in resident ADM and WADM/PUN served.



* Estimate as of October 26, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720

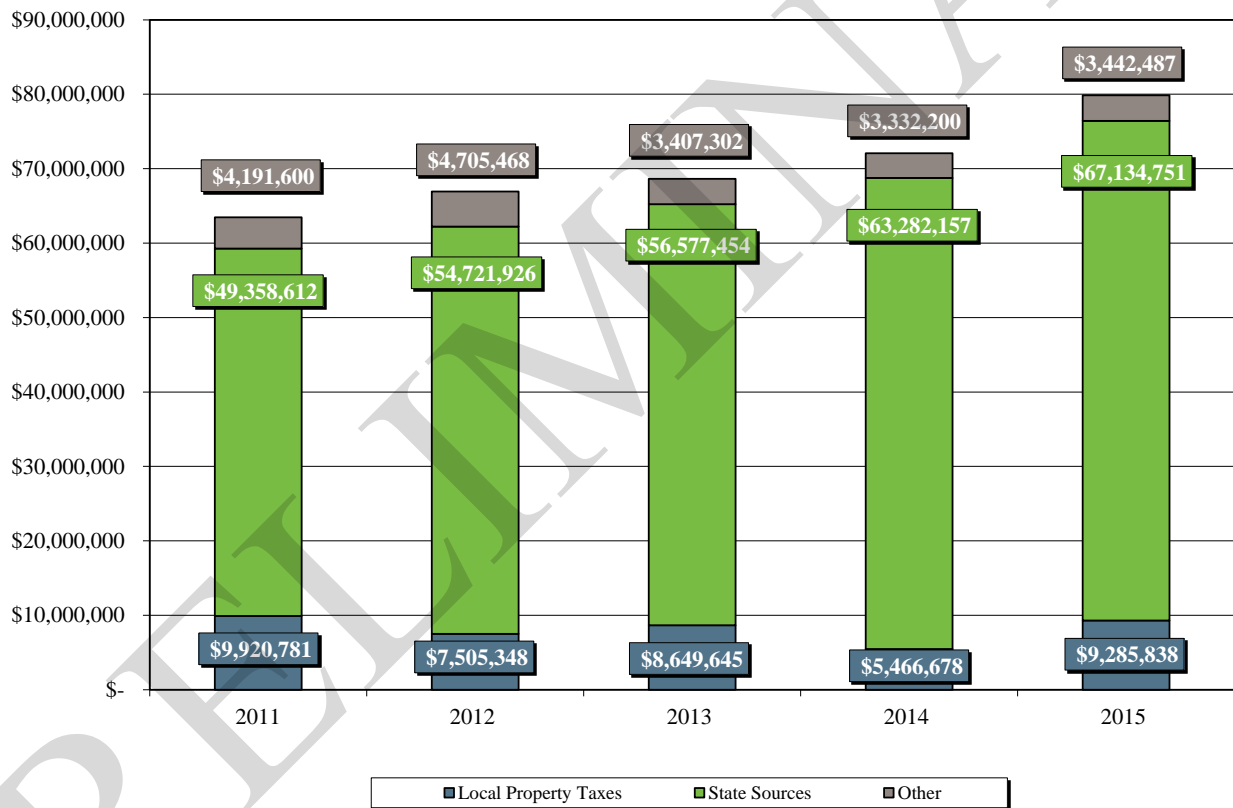
FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows for the last five years:

	2011	2012	2013	2014	2015
Local Property Taxes	\$ 9,920,781	\$ 7,505,348	\$ 8,649,645	\$ 5,466,678	\$ 9,285,838
State Sources	49,358,612	54,721,926	56,577,454	63,282,157	67,134,751
Other	4,191,600	4,705,468	3,407,302	3,332,200	3,442,487
Total	\$ 63,470,993	\$ 66,932,742	\$ 68,634,401	\$ 72,081,035	\$ 79,863,076

State revenue sources represent 84.1% of the General Fund total revenue, with local taxpayers contributing 11.6% of the funding and federal and other sources making up the remaining 4.3%.



Overall, General Fund revenue increased 10.8%, or \$ 7,782,041. Local property taxes increased \$ 3,819,160 or 69.9% in 2015 primarily due to the pay back of the tax shift in 2014. Beginning in 2011, 48.6% of the Pay 2012 levy was shifted into 2011. The tax shift was the same in 2012 and 2013 at 48.6%. In 2014, \$ 3.6 million was paid back, causing a decrease in property tax revenue and an offsetting increase in state aids. This was partially offset by a decrease in the General Fund's share of the Pay 2014 levy of approximately \$ 254,000 from the Pay 2013 levy. Revenue from state sources increased \$ 3,852,594, or 6.1%, in 2015 as a result an increase in resident ADM, an increase of \$ 105 per pupil unit in General Education Aid, first year of fully funded all-day kindergarten, an increase in special education aid as a result of a change in the formula and new teacher development and evaluation aid. Other revenues, which include local, county and federal revenue, remained relatively consistent, increasing \$ 110,287, or 3.3%.

INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

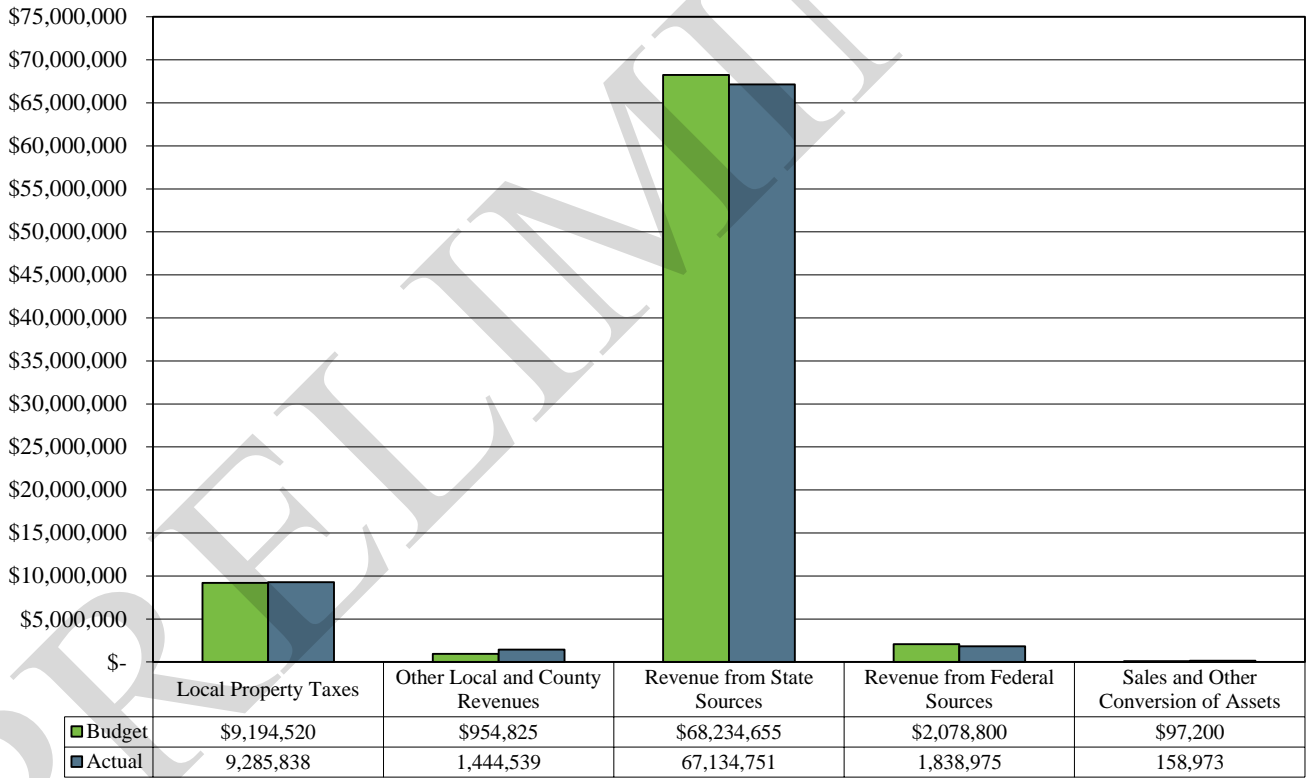
GENERAL FUND REVENUES BUDGET AND ACTUAL

The graph below outlines the District’s final budget and actual results for General Fund revenues.

In June 2014, the District approved a General Fund revenue budget of \$ 80,560,000; no amendments were made to the budget in 2015. With actual revenues coming in at \$ 79,863,076, the final budget produced a variance of \$ 696,924 or 0.9%.

State sources of revenue were \$ 1,099,904 under budget primarily due to student counts coming in lower than they were projecting when the budget was put together. Other local and county revenues were \$ 489,717 over budget due to conservative budgeting for medical assistance payments and higher revenue from the consortium due to higher internet costs that were spread to the consortium.

**2015 General Fund Revenues
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

REVENUES PER STUDENT (ADM) SERVED

General Fund revenues per student (ADM) served is summarized in the following table. In addition, tables for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Shakopee					
General Fund	2011*	2012*	2013*	2014*	2015**
Property Taxes	\$ 1,322	\$ 961	\$ 1,121	\$ 690	\$ 1,186
Other Local Sources	177	179	184	193	205
State Aid	6,721	7,197	7,477	8,209	8,576
Federal Aid	422	466	288	258	235
Total General Fund Revenue	\$ 8,642	\$ 8,803	\$ 9,070	\$ 9,350	\$ 10,202

Seven-County Metro Area					
General Fund	2011*	2012*	2013*	2014*	2015**
Property Taxes	\$ 2,810	\$ 2,654	\$ 1,676	\$ 1,014	N/A
Other Local Sources	358	698	427	465	N/A
State Aid	7,063	7,949	8,124	9,081	N/A
Federal Aid	755	621	507	474	N/A
Total General Fund Revenue	\$ 10,986	\$ 11,922	\$ 10,734	\$ 11,034	N/A

State-Wide					
General Fund	2011*	2012*	2013*	2014*	2015**
Property Taxes	\$ 2,132	\$ 1,550	\$ 1,608	\$ 923	N/A
Other Local Sources	429	444	442	477	N/A
State Aid	7,341	8,033	8,234	9,137	N/A
Federal Aid	729	590	494	463	N/A
Total General Fund Revenue	\$ 10,631	\$ 10,617	\$ 10,778	\$ 11,000	N/A

* Source: *School District Profiles*

** Estimate as of October 26, 2015; seven county metro and state-wide averages are not available.

The District has seen an increase in revenues per student (ADM) served from 2011 to 2015. Property tax revenues per student increased 71.9%, or \$ 496 per ADM served, from 2014 to 2015 due to the pay back of the tax shift in 2014. State aid revenues per student increased 4.5%, or \$ 367 per ADM served as a result of an increase in resident students, an increase of \$ 105 per pupil in general education funding, an increase in special education funding and new teacher development and evaluation aid, offset by the pay back of the tax shift in 2014. Federal revenues per student decreased 8.9%, or \$ 23 per ADM served as a result of decreases in Title I, Title II, Title III and federal special education aid.

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered and countless other criteria.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

EXPENDITURES PER STUDENT (ADM) SERVED

General Fund expenditures by program per student (ADM) served is summarized in the following table. In addition, tables for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Shakopee					
General Fund	2011*	2012*	2013*	2014*	2015**
Administration and District Support Services	\$ 571	\$ 571	\$ 704	\$ 788	\$ 922
Elementary and Secondary Regular Instruction	4,141	4,197	4,384	4,590	4,924
Vocational Education Instruction	66	64	60	93	87
Special Education Instruction	1,684	1,686	1,887	1,924	1,959
Instructional Support Services	437	417	574	542	691
Pupil Support Services	655	719	738	784	859
Sites and Buildings	583	564	596	622	721
Capital Expenditures	271	215	242	274	229
Total General Fund Expenditures	\$ 8,408	\$ 8,433	\$ 9,185	\$ 9,617	\$ 10,392

Seven-County Metro Area					
General Fund	2011*	2012*	2013*	2014*	2015**
Administration and District Support Services	\$ 788	\$ 804	\$ 844	\$ 879	N/A
Elementary and Secondary Regular Instruction	5,107	5,103	5,034	5,145	N/A
Vocational Education Instruction	136	136	132	134	N/A
Special Education Instruction	2,015	2,004	1,952	2,034	N/A
Instructional Support Services	526	537	493	558	N/A
Pupil Support Services	937	957	923	953	N/A
Sites and Buildings	765	755	841	869	N/A
Capital Expenditures	419	410	497	493	N/A
Total General Fund Expenditures	\$ 10,693	\$ 10,706	\$ 10,716	\$ 11,065	N/A

State-Wide					
General Fund	2011*	2012*	2013*	2014*	2015**
Administration and District Support Services	\$ 852	\$ 864	\$ 892	\$ 926	N/A
Elementary and Secondary Regular Instruction	4,808	4,847	4,955	5,060	N/A
Vocational Education Instruction	134	133	132	133	N/A
Special Education Instruction	1,844	1,853	1,896	1,976	N/A
Instructional Support Services	435	449	466	524	N/A
Pupil Support Services	869	893	916	946	N/A
Sites and Buildings	797	793	838	868	N/A
Capital Expenditures	505	520	570	578	N/A
Total General Fund Expenditures	\$ 10,244	\$ 10,352	\$ 10,665	\$ 11,011	N/A

* Source: *School District Profiles*

** Estimate as of October 26, 2015; seven county metro and state-wide averages are not available.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS June 30, 2015

EXPENDITURES PER STUDENT (ADM) SERVED

ADM served represents residents served in the District, residents attending elsewhere on tuition and nonresidents served in the District both through open enrollment and tuition programs.

Expenditures per ADM served in the General Fund have increased 23.6% from 2010. Total General Fund expenditures over that same time have increased 33.7% while ADM served have increased 8.2%.

GENERAL FUND EXPENDITURES BY PROGRAM

General Fund expenditures by program are summarized in the following table:

	2011	2012	2013	2014	2015
Administration	\$ 3,690,663	\$ 3,292,774	\$ 4,105,872	\$ 4,596,262	\$ 5,537,421
District Support Services	549,918	1,045,663	1,184,754	1,364,310	1,792,791
Elementary and Secondary					
Regular Instruction	30,552,181	32,043,615	33,383,745	35,545,143	38,675,988
Vocational Education Instruction	482,322	491,687	458,572	725,118	695,927
Special Education Instruction	12,578,845	12,911,688	14,308,351	14,879,511	15,373,634
Instructional Support Services	4,004,157	3,951,408	5,062,602	5,152,834	6,443,763
Pupil Support Services	4,817,499	5,464,294	5,583,252	6,045,990	6,770,050
Sites and Buildings	4,959,721	4,789,565	5,288,317	5,637,614	5,847,498
Fiscal and Other Fixed Cost Programs	112,654	125,742	130,635	181,473	215,914
Debt Service	-	-	-	-	1,186,067
Total	\$ 61,747,960	\$ 64,116,436	\$ 69,506,100	\$ 74,128,255	\$ 82,539,053

The District saw an \$ 8,410,798 increase in General Fund expenditures from 2014 to 2015. Administration increased \$ 941,159, or 20.5% as a result of adding assistant principals to each of the elementary schools as well as a principal and secretary to the Central Family Center building. District support services increased \$ 428,481, or 31.4%, as a result of adding three new positions, election preparation expenditures related to the building bond election and lease expenditures related to the new District Office location. Elementary and secondary regular instruction increased \$ 3,130,845, or 8.8%, as a result of personnel and employee wage and benefit increases, additional staff related to an increase in students and additional teachers related to the implementation of fully funded all-day kindergarten. Special education instruction increased \$ 494,123 as a result of adding addition special education teachers and paraprofessionals. Instructional support services increased \$ 1,290,929, or 25.1%, due to adding new staff including two coordinators to teaching and learning, new human resources manager position, technology staff to cover technology initiatives and elementary substitute positions to cover for employees attending staff development and curriculum development sessions. Pupil support services increased \$ 724,060, or 12.0%, as a result of adding a counseling position to the high school, adding a part-time nurse and an increase in transportation costs related to an increase in the rate charged and increase in students. Debt services expenditures increased \$ 1,186,067 from zero due to 2015 being the first year of payments on the certificates of participation bond.

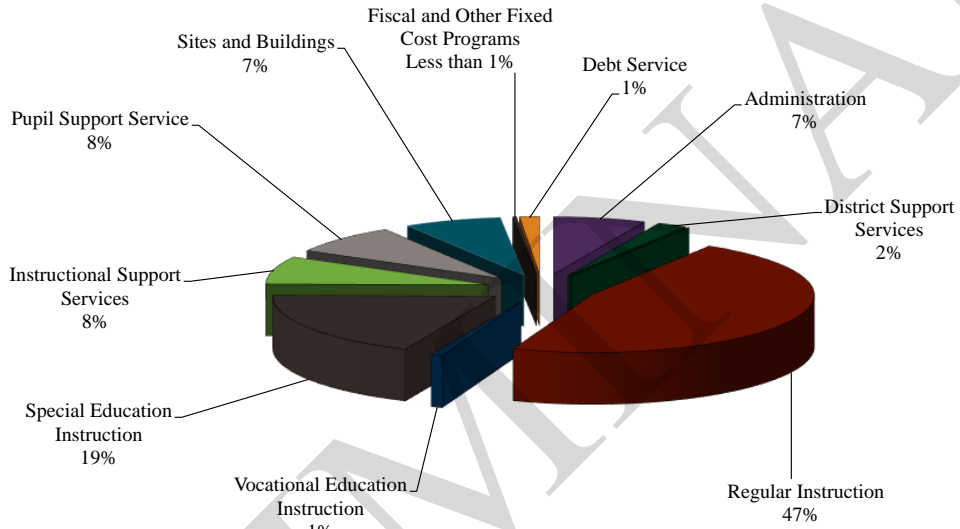
INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

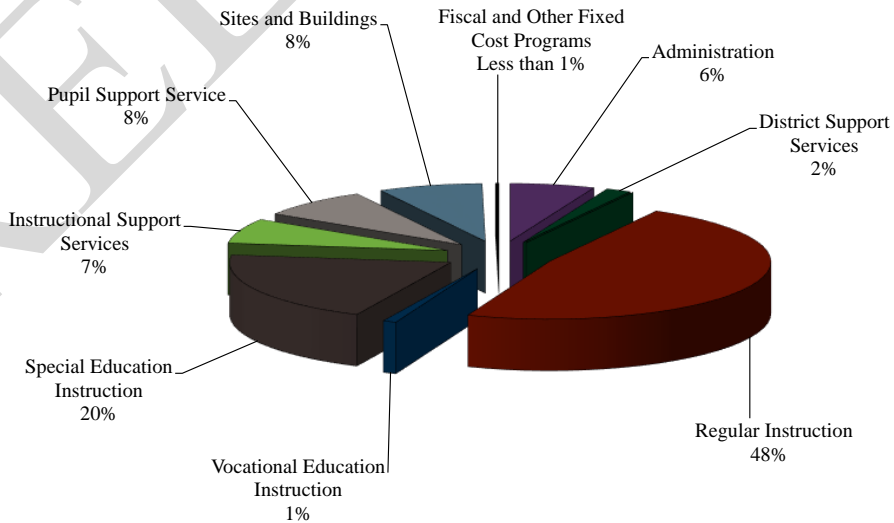
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for years 2014 and 2015. Expenditures increased \$ 8,410,798, or 11.3%, from 2014 to 2015 and the allocation of expenditures remained fairly consistent.

General Fund Expenditures 2015



General Fund Expenditures 2014



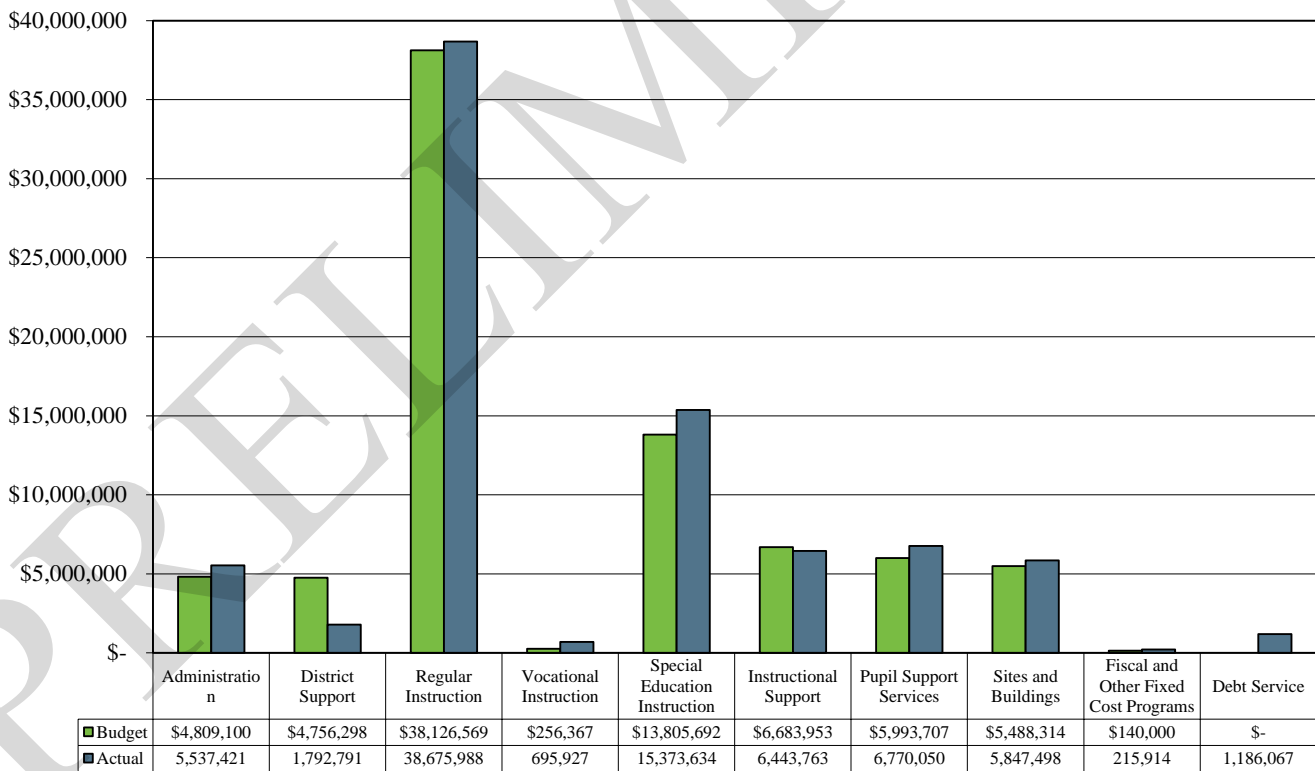
INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND EXPENDITURES BUDGET AND ACTUAL

The graph below outlines the budgeted and actual expenditures for the General Fund. Overall, actual expenditures were \$ 2,479,053 over budget. Administration was \$ 728,321 over budget due mostly to several smaller variances in salaries and the purchase of office supplies. District support services were \$ 2,963,507 under budget primarily due to a contingency budget that was not spread across programs. Elementary and secondary regular instruction expenditures came in relatively consistent with budgeted amounts, being \$ 549,419, or 1.4%, over budget. Vocational education instruction was \$ 439,560 over budget as a result of their being more vocational education classes than anticipated when the budget was prepared. Special education instruction was \$ 1,567,942 over budget mostly as a result of adding several special education teachers and paraprofessionals that were not included in the budget. Pupil support services were \$ 776,343 over budget as a result of positions added that were not part of the budget, an increase in police liaison costs, an increase in amounts due to intermediate schools as services provided increased more than anticipated and several other smaller variances. Debt service was also \$ 1,186,067 over budget as the certificates of participation payments were not included in the budget.

**2015 General Fund Expenditures
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND OPERATIONS

The following table presents five years of comparative operating results for the District's General Fund:

	2011	2012	2013	2014	2015*
Revenues	\$ 63,470,993	\$ 66,932,742	\$ 68,634,401	\$ 72,081,035	\$ 79,863,076
Expenditures	61,747,960	64,116,436	69,506,100	74,128,255	82,539,053
Excess of Revenues Over (Under) Expenditures	1,723,033	2,816,306	(871,699)	(2,047,220)	(2,675,977)
Transfers/Other Financing Sources	6,000	4,000	200	-	13,580
Fund Balance, July 1	8,806,300	10,535,333	13,355,639	12,484,140	10,436,920
Fund Balance, June 30	\$ 10,535,333	\$ 13,355,639	\$ 12,484,140	\$ 10,436,920	\$ 7,774,523
Components of Fund Balance:					
Nonspendable	\$ -	\$ 24,214	\$ 350,000	\$ 96	\$ 68,261
Restricted for:					
Staff Development	33,853	-	-	-	-
Health and Safety*	(707,216)	(804,664)	(1,101,939)	(701,302)	(770,198)
Operating Capital	1,636,158	1,884,217	1,680,862	1,905,984	2,158,125
Unassigned Fund Balance	9,572,538	12,251,872	11,555,217	9,232,142	6,318,335
Total	\$ 10,535,333	\$ 13,355,639	\$ 12,484,140	\$ 10,436,920	\$ 7,774,523

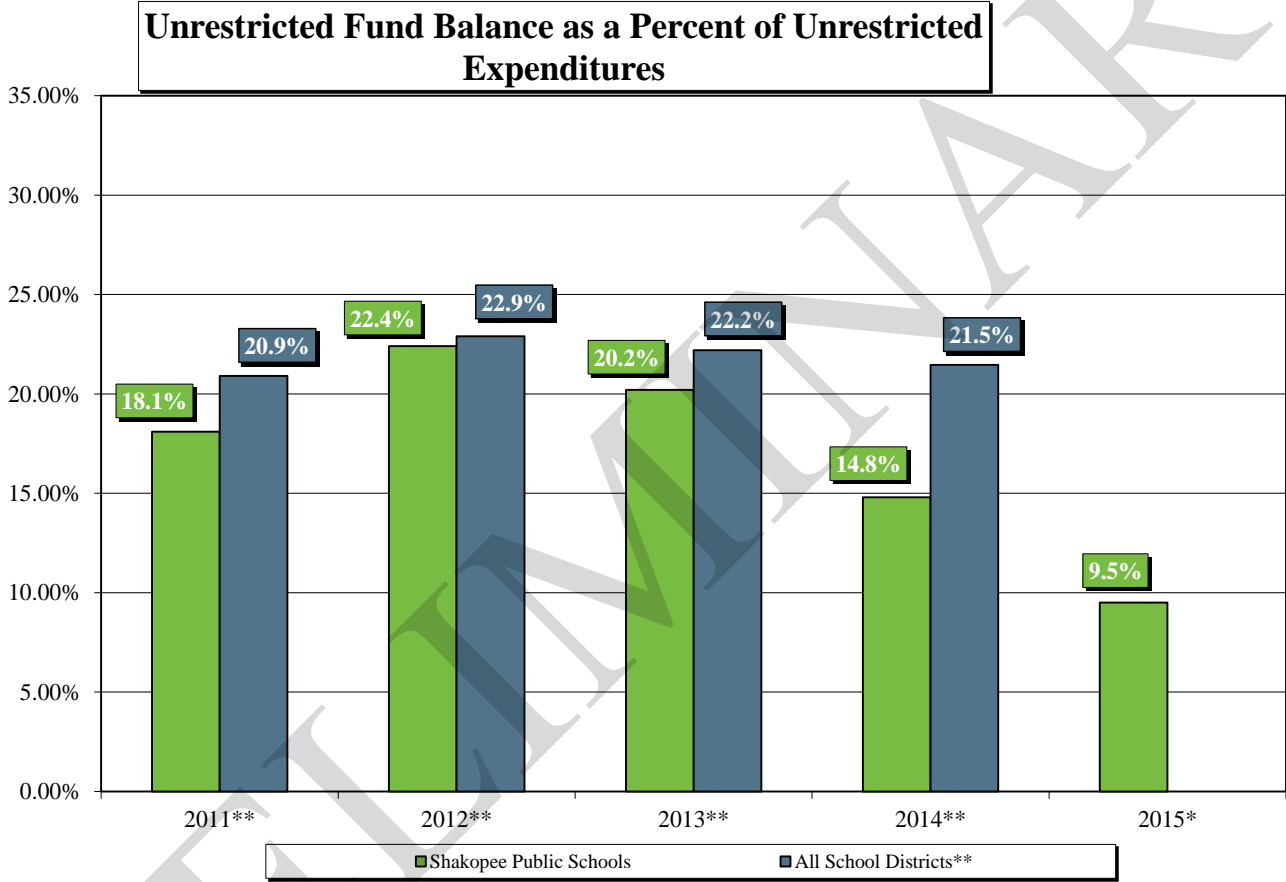
* The negative UFARS restriction is reclassified to unassigned fund balance on the face of the financial statements to be in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS
June 30, 2015

GENERAL FUND FINANCIAL HEALTH

The state uses a fund balance calculation based on unrestricted activity to compare school district fund balances to one another.

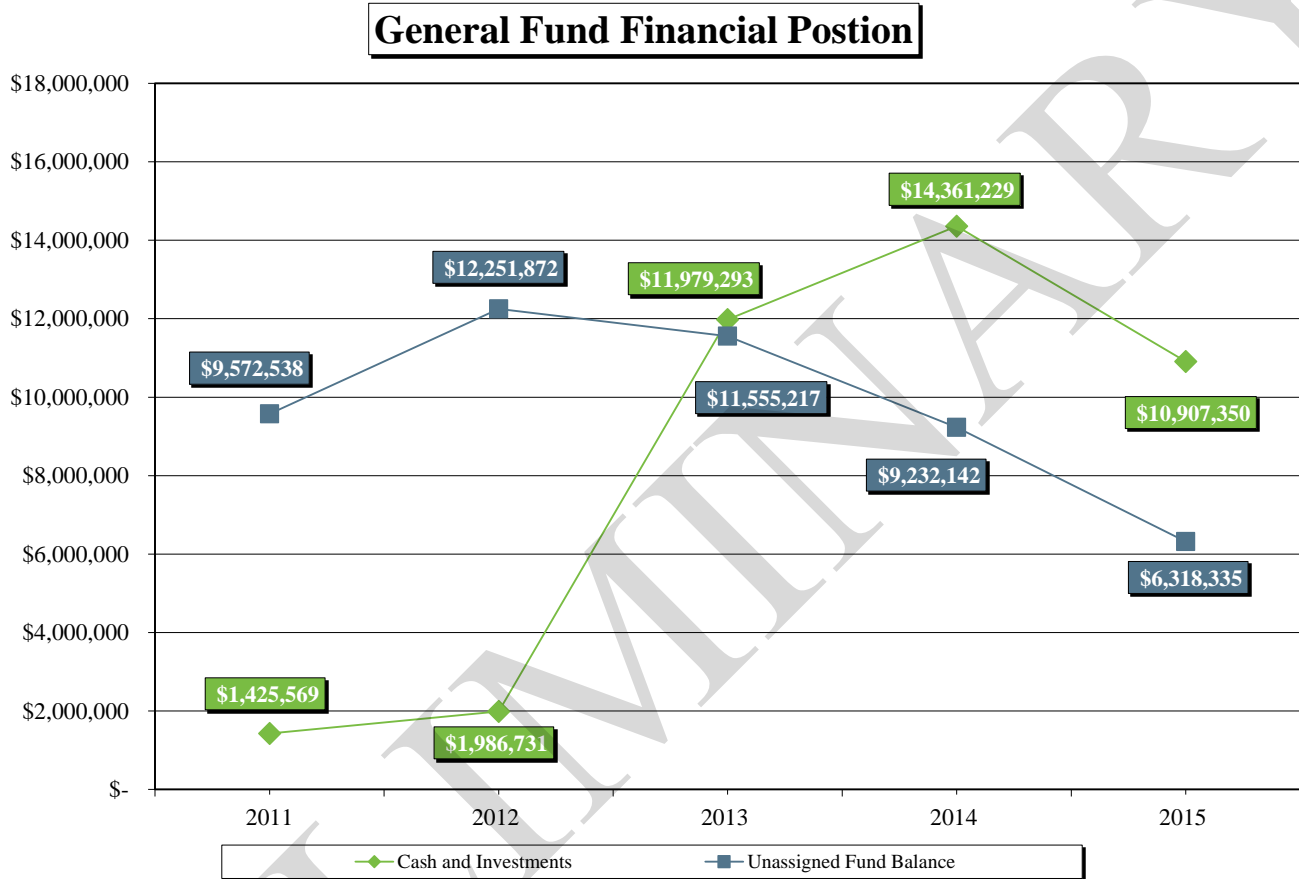


* 2015 Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report
** Source: Minnesota Department of Education (MDE) General Fund Unreserved Balance Report, Fiscal Years 2011-2014

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS
June 30, 2015

GENERAL FUND OPERATIONS



Over the course of the five year-ends presented, the General Fund cash and investment balance increased \$ 9,481,781, while total unassigned fund balance decreased \$ 3,254,203. The most significant change was the cash and investments increase from 2012 to 2013. This increase was due to the state decreasing its holdback of state aid payments to school districts. At June 30, 2012, the state held back approximately 37% of 2012 state aid from school districts. At June 30, 2013, the state held back approximately 14% of state aids from school districts. As a result, the District's amount due from the state in the General Fund decreased from \$ 18.7 million at June 30, 2012 to \$ 7.5 million at June 30, 2013. Cash decreased \$ 3,453,879 in 2015 due to expenditures exceeding revenues.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

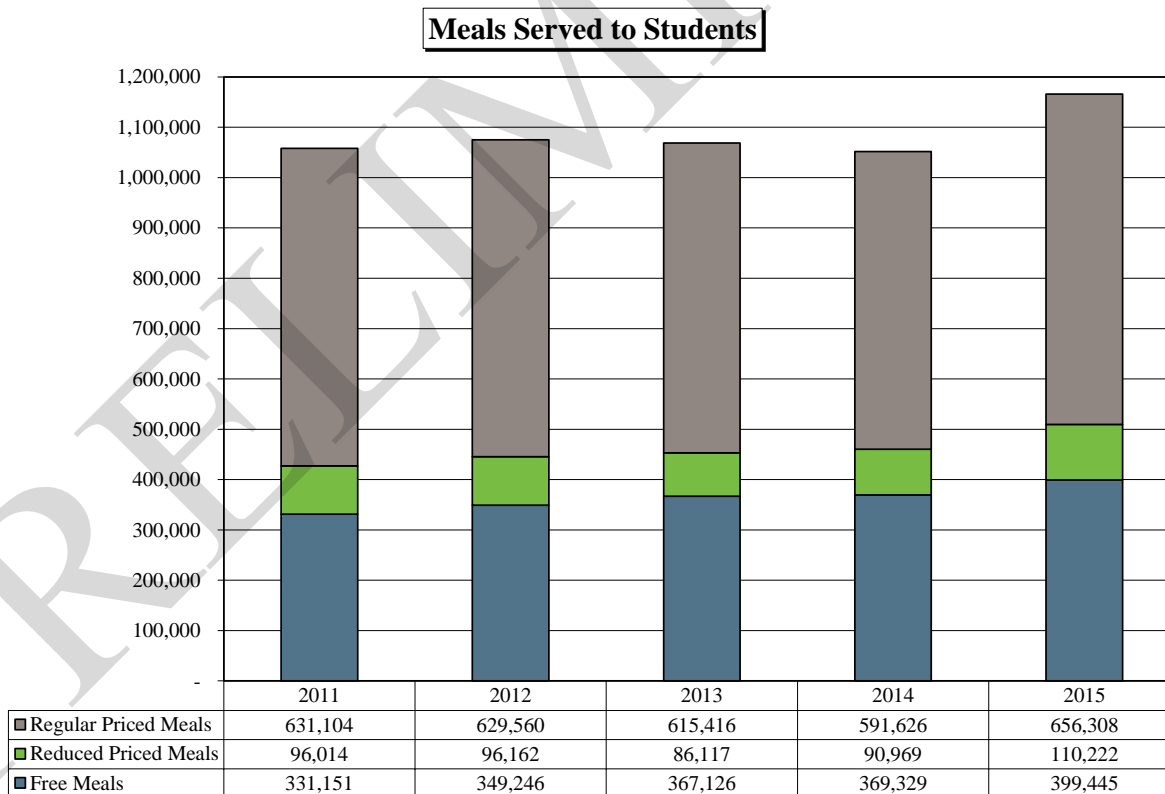
FOOD SERVICE FUND

The following table presents five years of comparative operating results for the District's Food Service Fund:

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 3,057,024	\$ 3,240,574	\$ 3,389,008	\$ 3,556,025	\$ 3,927,153
Expenditures	2,959,721	3,220,817	3,441,186	3,460,011	3,899,796
Excess of Revenues Over (Under) Expenditures	97,303	19,757	(52,178)	96,014	27,357
Fund Balance, July 1	262,183	359,486	379,243	327,065	423,079
Fund Balance, June 30	\$ 359,486	\$ 379,243	\$ 327,065	\$ 423,079	\$ 450,436

Food service revenues increased 10.4% due to a \$ 0.10 increase in the lunch rate, an increase in students and meals served and an increase in special food sales. Expenditures increased 12.7%. The 2015 activity in the Food Service Fund resulted in a fund balance increase to \$ 450,436, which is 11.6% of expenditures or just over one month of expenditures based on a nine month operating year.

The chart below reflects the number and type of meals served to students over the past five years.



* Source: *Food and Nutrition Services: District Financial Report* by the MDE

The total number of meals served increased from 2014 to 2015 as a result of an increase in students, including all-day, every day kindergarten.

INDEPENDENT SCHOOL DISTRICT NO. 720

**FINANCIAL ANALYSIS
June 30, 2015**

FOOD SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Food Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 416	\$ 426	\$ 448	\$ 461	\$ 502
State-Wide	472	486	493	499	N/A
Seven County Metro Area	470	484	492	501	N/A

Expenditures					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 403	\$ 424	\$ 455	\$ 449	\$ 498
State-Wide	466	483	497	510	N/A
Seven County Metro Area	469	480	497	510	N/A

* Source: *School District Profiles*

** Estimate as of October 26, 2015; seven county metro area and state-wide averages are not available.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the District's Community Service Fund:

	2011	2012	2013	2014	2015
Revenues	\$ 1,677,053	\$ 1,659,176	\$ 1,723,134	\$ 1,767,270	\$ 1,915,937
Expenditures	1,708,303	1,747,648	1,809,055	1,761,264	1,976,362
Excess of Revenues Over (Under) Expenditures	(31,250)	(88,472)	(85,921)	6,006	(60,425)
Fund Balance, July 1	272,743	241,493	153,021	67,100	73,106
Fund Balance, June 30	\$ 241,493	\$ 153,021	\$ 67,100	\$ 73,106	\$ 12,681

Components of Fund Balance:					
Restricted for:					
Community Education	\$ 223,445	\$ 141,972	\$ 56,828	\$ 6,546	\$ (75,851)
ECFE	-	-	-	5,162	15,277
School Readiness	18,048	11,049	10,272	61,398	73,255
Total	\$ 241,493	\$ 153,021	\$ 67,100	\$ 73,106	\$ 12,681

Expenditures exceeded revenues for the fourth time since 2011. During the year ended June 30, 2015, revenues increased 8.4% while expenditures increased 12.2%.

INDEPENDENT SCHOOL DISTRICT NO. 720

FINANCIAL ANALYSIS

June 30, 2015

COMMUNITY SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Community Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven-county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 228	\$ 218	\$ 228	\$ 229	\$ 245
State-Wide	510	521	530	531	N/A
Seven County Metro Area	619	633	549	567	N/A

Expenditures					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 233	\$ 230	\$ 239	\$ 228	\$ 252
State-Wide	498	507	515	534	N/A
Seven County Metro Area	623	630	548	570	N/A

* Source: *School District Profiles*

** Estimate as of October 26, 2015; seven county metro area and state-wide averages are not available.

DEBT SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Debt Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 1,736	\$ 1,719	\$ 1,927	\$ 1,767	\$ 1,693
State-Wide	1,072	1,107	1,099	1,037	N/A
Seven County Metro Area	1,131	1,180	1,081	1,084	N/A

Expenditures					
	2011*	2012*	2013*	2014*	2015**
Shakopee	\$ 1,664	\$ 1,735	\$ 2,043	\$ 7,511	\$ 8,831
State-Wide	1,102	1,275	1,173	1,394	N/A
Seven County Metro Area	1,230	1,312	1,255	1,476	N/A

* Source: *School District Profiles*

** Estimate as of October 26, 2015; seven county metro area and state-wide averages are not available.

Expenditures for fiscal year 2014 were significantly inflated due to the inclusion of over \$ 41 million of 2004 building bonds paid off by the 2013 crossover refunding bonds on February 1, 2014. Expenditures for 2015 were also inflated due to the inclusion of over \$ 54 million of 2005A, 2006A and 2006B bonds paid off by the 2013 crossover refunding bonds and the 2014A refunding bond during 2015.

INDEPENDENT SCHOOL DISTRICT NO. 720

LEGISLATIVE SUMMARY

June 30, 2015

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

Total appropriations from the state general fund for E-12 education for the 2016-2017 biennium are \$ 17.23 billion. The formula allowance for 2016 General Education Aid was increased \$ 117 (2%) to \$ 5,948. For 2017, the formula allowance is set at \$ 6,067, which is also an increase of 2%.

Beginning in 2016, the extended time revenue allowance increases to \$ 5,117, a \$ 100 increase.

ENGLISH LEARNER REVENUE

The funding eligibility time period has been extended from six years to seven years beginning in 2017.

COMPENSATORY REVENUE

Districts not in a compensatory pilot project are allowed to reallocate up to 50% of compensatory revenue among buildings based on a local plan beginning in 2016. The compensatory pilot grants have been extended for 2016 and later.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy is reduced from \$ 20 million to \$ 10 million for 2018 and eliminated for 2019.

OPERATING CAPITAL LEVY

The operating capital levy equalizing factor has been increased from \$ 14,500 for 2016 to \$ 14,740 for 2017, \$ 17,473 for 2018 and \$ 20,510 for 2019.

LEARNING AND DEVELOPMENT

Districts are no longer required to annually report on uses of learning and development revenue.

Q COMP

The basic Q Comp aid cap was increased to \$ 88,118,000 beginning for 2017. This cap was set at \$ 75,636,000 previously.

ALTERNATIVE TEACHER PAY

New language has been introduced allowing the alternative teacher pay system to include a hiring bonus or other added compensation for teachers identified as effective or highly effective who work in a hard to fill position or hard to staff school. There are additional incentives for teachers who earn a Master's degree or other advanced certification in their field, pursue training or dedication in shortage areas identified by their district, or help fund a "grow your own" new teacher initiative.

INDEPENDENT SCHOOL DISTRICT NO. 720

LEGISLATIVE SUMMARY June 30, 2015

STAFF DEVELOPMENT

Districts are required to use the 2% staff development set-aside for teacher development and evaluation, principal development and evaluation, professional development, in-service education and, to the extent funds remain, for staff development plans. Staff development plans must be aligned with teacher development and evaluation agreement.

AMERICAN INDIAN EDUCATION AID

Success for the Future grants will be replaced with American Indian Education aid effective for 2016. Districts with at least 20 American Indian students are eligible for this aid in the amount of approved cost or \$ 20,000 plus \$ 358 per American Indian enrolled on October 1 of the prior school year for enrollment exceeding 20. Districts currently receiving Success for the Future grants will be held harmless.

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues will be rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

- 1) \$ 193/APU for 2017, \$ 292 for 2018, and \$ 380 for 2019 and later, and
- 2) The lesser of 1 or the ratio of the district's average building age to 35 years
- 3) The approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of \$ 100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

MISCELLANEOUS LEVIES

The maximum rate for the building lease levy is changed from \$ 162 to \$ 212 per adjusted pupil unit for districts and from \$ 46 to \$ 65 for intermediate district members.

There is a new natural disaster debt service equalization levy available for Districts who have natural disaster damage in excess of \$ 500,000 that is not covered by FEMA or insurance. This is effective for the pay 2016 levy.

The debt service equalizing factors have changed from \$ 3,550 to \$ 3,400 for 2016 and to \$ 4,430 for 2017 and later for tier 1 Districts and from \$ 7,900 to \$ 8,000 for tier 2 Districts.

INDEPENDENT SCHOOL DISTRICT NO. 720

LEGISLATIVE SUMMARY June 30, 2015

LOCAL OPTIONAL REVENUE

Local optional revenue is replacing location equity revenue. All districts are eligible for \$ 424 per APU. The revenue will be deducted from the referendum allowance as local equity revenue was in 2015. Districts no longer need to opt out via board resolution. Instead, Districts will indicate the revenue allowance on the levy information system.

ACCOUNTING

A two-year extension was approved through 2017 of authority for school districts to transfer funds with commissioner approval if transfer does not result in additional aid or levy authority.. Transfers are not allowed from the food service or community service funds or the reserved/restricted account for staff development.

FINANCIAL REPORTING DATES

The deadline for prior year data corrections for final payments has been moved from December 30 to December 15.

SPECIAL EDUCATION

A new special education formula is enacted beginning in 2016. Beginning in 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

Beginning in 2016, the new special education regular formula is the least of:

- 62% of the District's old formula special expenditures for the prior fiscal year
- 50% of the District's nonfederal special education expenditures for the prior fiscal year (including fringe benefits)
- 56% of the amount calculated using a new pupil-driven formula based on prior year data

Beginning in 2016, the new special education excess cost aid is the greater of:

- 56% of the difference between the District's prior year unreimbursed nonfederal special education cost and 7% of the District's prior year general education revenue
- 62% of the difference between the District's prior year unreimbursed old formula special education cost and 2.5% of the District's prior year general education revenue

Beginning in 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Internal Control Integrated Framework** – COSO has issued an updated integrated framework for internal control. The update is expected to make the integrated internal control framework easier to use and apply. In addition, the update takes into account globalization of businesses today and its interdependence on technology. The updated framework superseded the original framework beginning January 1, 2015.
- **Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards** – The Office of Management and Budget (OMB) issued grant reform rules on December 23, 2013. This reform streamlines the language from eight existing OMB Circulars (listed below) into one consolidated set of guidance, in the code of Federal regulations, known as the “Super Circular”.
- **Accounting Standard Update – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – Governmental Accounting Standards Board (GASB) has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to the district.

COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK

In 1992, the Committee on Sponsoring Organizations of the Treadway Commission (COSO) developed an internal control framework that has been adopted and used by entities worldwide. In 2013, COSO finalized and released an updated integrated internal control framework. The update is expected to make the integrated framework easier to use and apply. In addition, the update takes into account, the business environment of today and the reliance on and interdependence of technology within business systems.

The internal control update is not changing the core definition of internal control, the three categories of objectives or the five components of internal control.

COSO defines internal control as a process, affected by an entity’s board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of the three objectives, as follows: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)

1. Internal control is a process. It is a means to an end, not an end in itself.
2. Internal control is not merely documented by policy manuals and forms. Rather, it is put in by people at every level of an organization.
3. Internal control can provide only reasonable assurance, not absolute assurance, to an entity's management and board.
4. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

The five components of internal control, which are unchanged, are as follows:

1. Control Environment - integrity, ethics, management style, etc.
2. Risk Assessment - identification and analysis of relevant risks
3. Control Activities - policies, procedures and activities, including segregation of duties
4. Information and Communication - ensure information effectively flows up, down and across the organization, both internally and externally
5. Monitoring Activities - assessment of the systems performance over time

The updated framework has changed to address the changes in business and operating environments, such as globalization of markets and operations, greater complexities in businesses, reliance on evolving technologies and expectations relating to preventing and detecting fraud. In addition, principles of effective internal controls have been added to each of the components of internal control as follows:

Control Environment:

1. Demonstrates a commitment to integrity and ethical values.
2. The board of directors is independent from management and exercises oversight responsibility of the performance of internal controls.
3. Management establishes structure, reporting lines, authority and responsibility.
4. Demonstrates a commitment to attract, develop and retain competent individuals.
5. Enforces accountability for individual's internal control responsibilities.

Risk Assessment:

6. Specifies suitable objectives with sufficient clarity.
7. Identifies and analyzes risk as a basis for how risks should be managed.
8. Assesses the potential for fraud risk.
9. Identifies and analyzes significant changes that could impact the system of internal controls.

Control Activities:

10. Selects and develops control activities that contribute to the mitigation of risks.
11. Selects and develops general controls over technology.
12. Deploys control activities through policies that establish what is expected and procedures that put policies into place.

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)

Information and Communication:

13. Uses relevant information to support the functioning of other components of internal control.
14. Communicates information internally, including objectives and responsibilities necessary to support the internal controls.
15. Communicates with external parties regarding matters affecting internal control.

Monitoring Activities:

16. Conducts ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. Evaluates and communicates deficiencies to those parties responsible for corrective actions.

The updated framework also has additional examples relevant to operation, compliance and reporting objectives added.

While COSO integrated internal control framework is very extensive, this is only a short summary of some of the changes of the updated framework. The updated framework superseded the original framework beginning January 1, 2015.

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

The Office of Management and Budget (OMB) issued grant reform rules on December 23, 2013. This uniform grant guidance streamlines Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

Effective Dates

Federal agencies must implement the requirements to be effective by December 26, 2014. Non-federal entities will need to implement the new Administrative Requirements and Cost Principles for all new Federal Awards made after December 26, 2014. Audit Requirements are effective for fiscal years beginning on or after December 26, 2014.

Objective of OMB Grant Reform

This reform streamlines the language from eight existing OMB Circulars into one consolidated set of guidance, in the code of Federal regulations, known as the “Super Circular”. The objective of the grant reform is to reduce administrative burden for non-federal entities receiving Federal Awards while reducing the risk of waste, fraud and abuse by:

1. Eliminating duplicative and conflicting guidance
2. Focusing on performance over compliance for accountability
3. Encouraging efficient use of information technology and shared services
4. Providing for consistent and transparent treatment of costs
5. Limiting allowable costs to make the best use of federal resources
6. Setting standard processes using data definitions
7. Encouraging non-federal entities to have family friendly policies
8. Strengthening oversight
9. Targeting audit requirements on risk of waste, fraud and abuse

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

This grant reform complements targeted efforts by OMB and a number of Federal agencies to reform overall approaches to grant-making by implementing innovative, outcome-focused grant making decisions and processes in collaboration with their non-federal partners.

Administrative Requirements – Subpart A-D of Federal Register

Following are some of the notable items in the updated Administrative Requirements.

- Must is defined as required
- Should is defined as best practice or recommended approach
- The term “vendor” is no longer used and was replaced with the term “contractor” (Section 200.23)
- Personally Identifiable Information (PII) and Protected Personally Identifiable Information (PPII) are defined (Sections 200.79 and 200.82)
- Fixed amount awards focused on meeting performance milestones (Section 200.201)
- Emphasis on performance goals and performance reporting (Section 200.301)
- Defined that computers are considered supplies, not equipment (Section 200.940)
- Flexibility in electronic documentation retention, with associated internal controls (Section 200.335)

Internal Controls (Section 200.303)

Internal controls should comply with:

- “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Federal statutes, regulations and terms and conditions of the Federal award

Internal controls must:

- Evaluate and monitor compliance
- Take prompt action for noncompliance
- Take reasonable measures to safeguard PPII and other sensitive information

Procurement Standards (Sections 200.317 through 200.326)

Guidelines provide five different procurement methods

- Micro-purchases
- Small purchases
- Sealed bids
- Competitive proposals
- Noncompetitive proposals

Entities must have a documented procurement policy, written standards of conduct covering organizational conflicts of interest and must maintain oversight to ensure that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

Subrecipient Monitoring (Sections 200.330 through 200.332 and 200.521)

The pass-through entity must clearly identify the agreements as a subaward and must provide up to 13 different award identification pieces of information within the contract. There are also other required disclosures described for all requirements imposed by the pass-through entity on the subrecipient, indirect cost rate, allowing access to records, etc. An evaluation of each subrecipients risk of noncompliance is also required.

Cost Principles – Subpart E of Federal Register

Following are some of the notable items in the updated Cost Principles.

Indirect/Direct Costs (Sections 200.413-200.414)

- Salaries of administrative or clerical staff could be directly charged to a federal program if they meet certain conditions.
- Any non-federal entity that has never negotiated an indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs which may be used indefinitely
- Federally negotiated indirect cost rates must be accepted by all federal awarding agencies (usually).
- Any non-federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years.

Time and Effort Reporting (Section 200.430)

Charges to Federal Awards must be based on records that accurately reflect the work performed.

- Records are to be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated
- There is flexibility in process used to meet those standards
- Personnel activity reports not specifically required
- Maintained budget estimates may be used for interim accounting purposes, provided that, the non-federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal Award based on budget estimates to ensure adjustments are made so final amounts to Federal Awards are proper.

Audit Requirements – Subpart F of Federal Register

Following are some of the notable items in the updated Audit Requirements.

- Single Audit threshold raised from \$ 500,000 in Federal Awards per year to \$ 750,000 in Federal awards per year
- Major program determination changes include:
 - Type A/B program threshold is a sliding scale with a minimum of \$ 750,000
 - Percentage of coverage rule changes to 40% (50% currently) for non-low risk auditees and 20% (25% currently) for low risk auditees
- Updated criteria for a low-risk auditee
 - Going concern is incorporated
 - Cognizant/oversight agency can no longer waive exception
- Reporting for questioned costs threshold raised from \$ 10,000 to \$ 25,000

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

Other Items of Interest

- List of items requiring prior written approval (*Section 200.407*)
- Advertising and public relations clarified, include program outreach (*Section 200.421*)
- Conference spending clarified (*Section 200.432*)
- Employee “morale” costs eliminated (*Section 200.437*)

Example of Strategy to Implement OMB Grant Reform Changes

1. Understand grant reform changes
2. Assign an internal expert who will be responsible for leading effort (time, resources and availability)
3. Establish a team and include those in program, financial and budget sides of federal grant management
4. Develop a plan and concentrate on areas of most significance first
5. Obtain approval from management and those charged with governance as it relates to policy changes
6. Attain/Provide training on new requirements and new entity specific policies and procedures
7. Monitor plan and focus on areas of most significant change

Additional Resources on OMB Grant Reform

- OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
 - (<https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards>)
- COFAR FAQs
 - (<https://cfo.gov/wp-content/uploads/2013/01/2-C.F.R.-200-FAQs-2-12-2014.pdf>)
 - (<https://cfo.gov/wp-content/uploads/2014/08/2014-08-29-Frequently-Asked-Questions.pdf>)
- OMB Policy Statements
 - (http://www.whitehouse.gov/OMB/grants_docs)

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

INDEPENDENT SCHOOL DISTRICT NO. 720

EMERGING ISSUES

June 30, 2015

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 – ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.

**INDEPENDENT SCHOOL DISTRICT NO. 720
Shakopee, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2015



berganKDV
CPAS | ADVISORS

INDEPENDENT SCHOOL DISTRICT NO. 720

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INDEPENDENT SCHOOL DISTRICT NO. 720

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INDEPENDENT SCHOOL DISTRICT NO. 720
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2015

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Reggie Bowerman	Chairperson	December 31, 2015
Scott Swanson	Vice Chairperson	December 31, 2017
Angela Tucker	Clerk	December 31, 2015
Matt McKeand	Treasurer	December 31, 2015
Vacant	Director	December 31, 2017
Shawn Hallett	Director	December 31, 2017
Mary Romansky	Director	December 31, 2017
<u>Administration</u>		
Dr. Rod Thompson	Superintendent	
Mike Burlager	Director of Finance	
Rochelle Greenwood	Staff Accountant	



INDEPENDENT AUDITOR'S REPORT

BerganKDV, Ltd.

To the School Board
Independent School District No. 720
Shakopee, Minnesota

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

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.

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

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.

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

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

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56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
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Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of June 30, 2015, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 68 and GASB 71

As discussed in Note 10 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2014, from which such partial information was derived.

We also have previously audited the District's 2014 basic financial statements and our report, dated November 3, 2014, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This section of Independent School District No. 720's (the "District") annual financial report presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report,
- Management's Discussion and Analysis,
- Basic financial statements, including the government-wide financial statements, fund financial statements and the Notes to the Financial Statements,
- Required supplementary information and
- Combining and individual fund statements and schedules.

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

Government-Wide Statements

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

For Minnesota schools, funds are established in the Uniform Financial Accounting and Reporting System (UFARS) in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following two kinds of funds:

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 51,058,762	\$ 109,349,738
Capital Assets, Net of Depreciation	145,274,734	139,032,368
Deferred Outflows of Resources	10,249,161	-
Total Assets	\$ 196,333,496	\$ 248,382,106
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current and Other Liabilities	\$ 12,302,199	\$ 13,116,209
Long-Term Liabilities, Including Due Within One Year	177,210,613	181,998,817
Deferred Inflows of Resources	36,023,543	20,914,411
Total Liabilities and Deferred Inflows	\$ 225,536,355	\$ 216,029,437
NET POSITION		
Net Investment in Capital Assets	\$ 23,041,568	\$ 21,840,189
Restricted	3,150,431	2,411,568
Unrestricted	(45,145,697)	8,100,912
Total Net Position	\$ (18,953,698)	\$ 32,352,669

The District's financial position is the product of many factors. For example, the determination of the District's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts.

The financial position of the District did not improve this year as measured by total net position. For the year ended June 30, 2015, total net position decreased by \$ 51,306,367 to a level of \$ (18,953,698). The decrease reflects a \$ 51,004,185 adjustment to the beginning net position on the Statement of Activities for the beginning net pension liability. This adjustment is a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71. The district's current year operations resulted in a net position decrease of \$ 302,182, or 0.9%.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

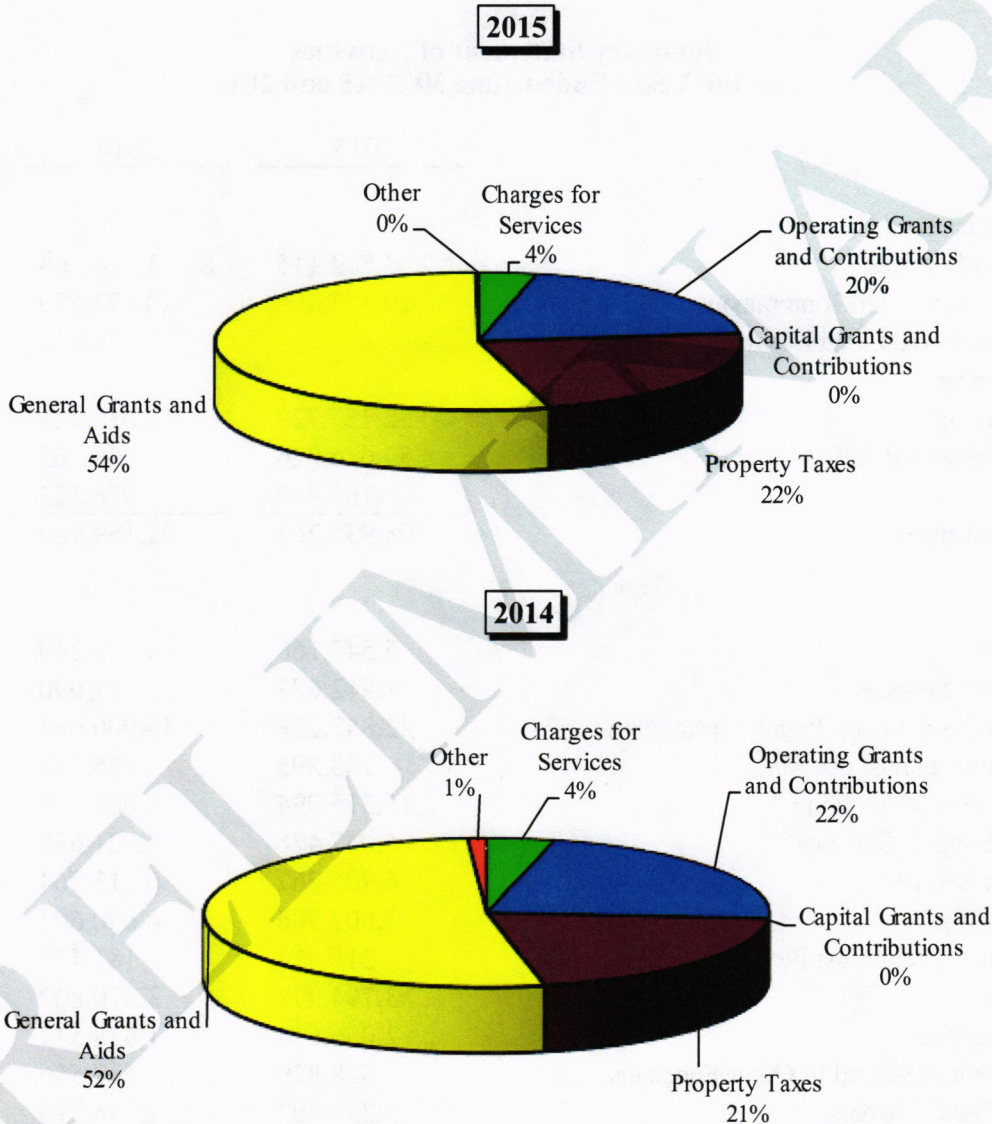
	2015	2014
REVENUES		
Program Revenues:		
Charges for Services	\$ 3,512,115	\$ 3,524,763
Operating Grants and Contributions	19,373,405	20,373,579
Capital Grants and Contributions	-	38,845
General Revenues:		
Property Taxes	22,257,728	18,638,425
General Grants and Aids	53,626,026	47,608,165
Other	165,989	976,123
Total Revenues	98,935,263	91,159,900
EXPENSES		
Administration	5,547,166	4,623,140
District Support Services	1,912,672	1,471,090
Elementary and Secondary Regular Instruction	42,847,228	40,000,664
Vocational Education Instruction	703,295	725,118
Special Education Instruction	15,515,994	15,085,785
Instructional Support Services	6,047,476	4,921,635
Pupil Support Services	6,905,267	6,213,364
Sites and Buildings	7,807,706	6,880,602
Fiscal and Other Fixed Cost Programs	215,914	181,473
Food Service	3,794,772	3,470,807
Community Service	2,056,634	1,838,544
Depreciation not Allocated to Other Functions	628,829	517,536
Interest and Fiscal Charges	5,254,492	7,146,210
Total Expenses	99,237,445	93,075,968
Change in Net Position	\$ (302,182)	\$ (1,916,068)

The table summarizes all of the governmental activities of the District and is presented on the accrual basis of accounting. Revenues are allocated between those directly related to specific programs and those that are general revenues. Depreciation expense is included in expenses, but capital asset purchase costs, debt proceeds and the repayment of debt principal are excluded.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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



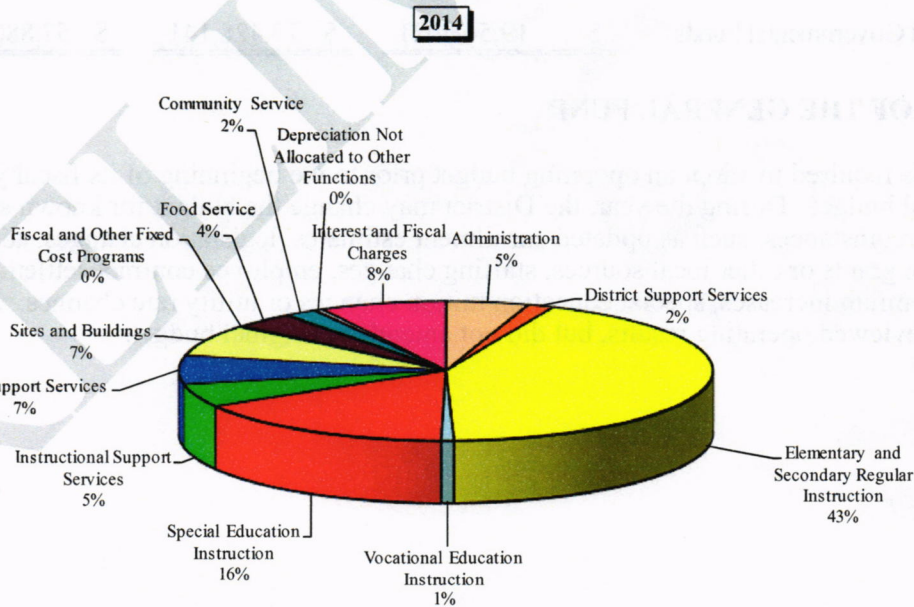
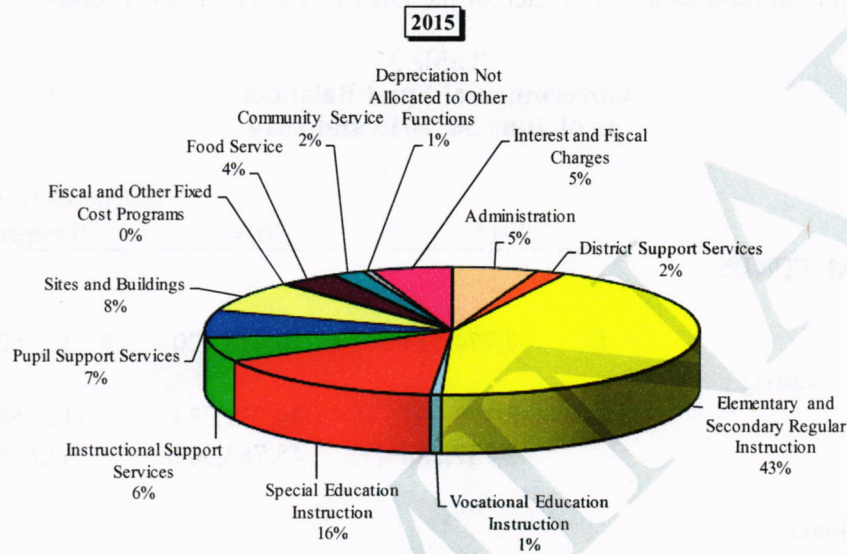
The largest share of the District’s revenue is received from the state, including the General Education Aid formula and most of the operating grants. Consequently, the District’s funding depends significantly on the state’s financial fluctuations.

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

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure B – Expenses for Fiscal Years 2015 and 2014



The District's expenses are predominately related to educating students. The majority of the District's expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, vocational education instruction, special education instruction and instructional support services.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances in each of the District's governmental funds:

Table 3
Governmental Fund Balances
As of June 30, 2015 and 2014

	2015	2014	Increase (Decrease)
GOVERNMENTAL FUNDS			
Major Funds:			
General	\$ 7,774,523	\$ 10,436,920	\$ (2,662,397)
Capital Projects – Building			
Construction	8,373,093	20,731,734	(12,358,641)
Debt Service	2,937,288	45,763,302	(42,826,014)
Nonmajor Funds:			
Special Revenue Funds:			
Food Service	450,436	423,079	27,357
Community Service	12,681	73,106	(60,425)
Total Governmental Funds	\$ 19,548,021	\$ 77,428,141	\$ 57,880,120

ANALYSIS OF THE GENERAL FUND

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District may change the budget for known significant changes in circumstances, such as updated enrollment estimates, legislation changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, health insurance premium increases, special education tuition changes or utility rate changes. During the year, the District reviewed operating results, but did not amend the original budget.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the operating results of the General Fund:

Table 4
General Fund Operating Results

	2015 Actual	Over (Under) Final Budget		Over (Under) Prior Year	
		Amount	Percent	Amount	Percent
Revenue and Other Financing Sources	\$ 79,863,076	\$ (696,924)	(0.9%)	\$ 7,782,041	10.8%
Expenditures	<u>82,539,053</u>	2,479,053	3.0%	8,410,798	11.3%
Net Change in Fund Balances	<u>\$ (2,675,977)</u>				

Actual expenditures were over budget largely due to the staff changes that required the Board to add staff. Expenditures were also higher mainly from other planned staff increases over the previous fiscal year.

The growth in revenues over the prior year can be attributed to the District serving more students in fiscal year 2015 and an increase to the General Education formula by the State of Minnesota. There was also a budgeted increase in federal revenue sources. The number of students fell short of projects for the first year of all-day kindergarten and we had a reduction in students from fall to spring for the third year in a row

ANALYSIS OF REMAINING MAJOR FUNDS

The District's activity in the Capital Projects – Building Construction Fund is related to projects financed with general obligation (G.O.) building bonds to meet the needs of the District's growing student population and Certificates of Participation to meet the need to add all day Kindergarten for fiscal year 2015. As planned in the budget, expenditures exceeded revenues in fiscal year 2015 for the (G.O) portion of the fund by \$ 12.36 million. The COP projects were issued in December 2013 and construction completed in the summer of 2014 so the additional kindergarten space was available at the start of the school year in September of 2014.

Activity of the Debt Service Fund is largely controlled in accordance with each outstanding debt issue's financing plan. The District retired \$ 7,620,000 of bond principal during fiscal year 2014 according to payment schedules. The Debt Service Fund has approximately \$ 2.9 million of year-end fund balance. The current fund balance is available to finance future debt service obligations.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 5 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2015 and 2014:

Table 5
Capital Assets

	2015	2014	Increase (Decrease)
Land	\$ 13,987,802	\$ 13,987,802	\$ -
Construction in Progress	4,889,390	4,593,313	296,077
Capital Assets, Net of Accumulated Depreciation:			
Site Improvements	3,055,726	3,120,573	(64,847)
Buildings	115,522,785	111,192,807	4,329,978
Furniture and Equipment	7,819,031	6,137,873	1,681,158
Total	\$ 145,274,734	\$ 139,032,368	\$ 6,242,366
Accumulated Depreciation	\$ (58,132,200)	\$ (52,949,654)	\$ (5,182,546)
Depreciation Expense	\$ 5,202,016	\$ 4,937,662	\$ 264,354

Capital assets are increasing to meet the needs of the District's anticipated continued growth.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Long-Term Liabilities

Table 6 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 6
Outstanding Long-Term Liabilities

	2015	2014	Increase (Decrease)
G.O. Bonds Payable, Net of Premium	\$ 117,119,964	\$ 168,332,626	\$ (51,212,662)
Certificates of Participation Payable, Net of Premium	12,740,914	13,360,967	(620,053)
Compensated Absences Payable	432,665	305,224	127,441
Total	\$ 130,293,543	\$ 181,998,817	\$ (51,705,274)

Scheduled payments on outstanding obligations as discussed earlier and the refunding of the 2005A and 2006A Bond resulted in a decrease of the District's bonds payable as presented in the table above.

The state limits the amount of G.O. debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. (See Table 7.)

Table 7
Limitations on Debt

District's Market Value	\$ 4,150,908,244
Limit Rate	<u>15.0%</u>
Legal Debt Limit	<u>\$ 622,636,237</u>

Additional details of the District's capital assets and long-term debt activity can be found in the Notes to the Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the State of Minnesota for educational resources. The basic general education formula amount for all Minnesota school districts increased 1.5% to \$ 5,831 in 2015, the fourth increase since fiscal year 2009. An improving economy has reduced some of the challenges in funding education for Minnesota schools in recent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 720, 1200 Shakopee Town Square, Shakopee, Minnesota 55379.

PRELIMINARY

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PRELIMINARY

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 720

STATEMENT OF NET POSITION

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	Governmental Activities	
	2015	2014
ASSETS		
Cash and Investments	\$ 30,205,100	\$ 35,917,503
Cash with Fiscal Agent	563,011	53,549,041
Current Property Taxes Receivable	10,963,603	10,891,135
Delinquent Property Taxes Receivable	141,705	198,230
Accounts Receivable	6,584	52,162
Interest Receivable	1,597	24,349
Due from Department of Education	7,623,446	6,717,744
Due from Federal Government through Department of Education	826,374	1,168,573
Due from Other Minnesota School Districts	126,597	14,546
Due from Other Governmental Units	380,950	-
Inventory	33,832	33,057
Prepaid Items	185,963	139,597
Net Other Post Employment Benefits (OPEB) Asset	-	643,801
Capital Assets not being Depreciated:		
Land	13,987,802	13,987,802
Construction in Progress	4,889,390	4,593,313
Capital Assets, Net of Accumulated Depreciation:		
Site Improvements	3,055,726	3,120,573
Buildings	115,522,785	111,192,807
Furniture and Equipment	7,819,031	6,137,873
Total Assets	<u>196,333,496</u>	<u>248,382,106</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions	10,249,161	-
Total Assets and Deferred Outflows of Resources	<u>\$ 206,582,657</u>	<u>\$ 248,382,106</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Accounts Payable	\$ 1,151,489	\$ 787,118
Contracts Payable	525,518	1,819,636
Salaries and Benefits Payable	7,427,919	6,934,308
Interest Payable	2,029,410	2,951,054
Due to Other Minnesota School Districts	527,984	499,161
Due to Other Governmental Units	45	90
Unearned Revenue	139,834	124,842
Advance on Bond Proceeds	500,000	-
Bonds Payable, Net:		
Payable Within One Year	8,860,000	49,585,000
Payable After One Year	108,259,964	118,056,407
Certificates of Participation Payable, Net:		
Payable Within One Year	525,000	610,000
Payable After One Year	12,215,914	12,750,967
Compensated Absences Payable:		
Payable Within One Year	432,665	305,224
Net Other Post Employment Benefit (OPEB) Obligation	509,632	-
Net Pension Liability	46,407,438	-
Total Liabilities	<u>189,512,812</u>	<u>194,423,807</u>
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	21,096,247	20,914,411
Deferred Amount on Refunding	745,381	691,219
Deferred Inflows of Resources Related to Pensions	14,181,915	-
Total Deferred Inflows of Resources	<u>36,023,543</u>	<u>21,605,630</u>
Net Position		
Net Investment in Capital Assets	23,041,568	21,840,189
Restricted	3,150,431	2,411,568
Unrestricted	(45,145,697)	8,100,912
Total Net Position	<u>(18,953,698)</u>	<u>32,352,669</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 206,582,657</u>	<u>\$ 248,382,106</u>

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

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INDEPENDENT SCHOOL DISTRICT NO. 720

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expense) and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2015	2014
Governmental Activities						
Administration	\$ 5,547,166	\$ 23,040	\$ 19,948	\$ -	\$ (5,504,178)	\$ (4,595,889)
District Support Services	1,912,672	35,897	44,209	-	(1,832,566)	(1,459,372)
Elementary and Secondary Regular Instruction	42,847,228	448,664	6,854,136	-	(35,544,428)	(33,076,453)
Vocational Education Instruction	703,295	300	85,059	-	(617,936)	(668,442)
Special Education Instruction	15,515,994	228,614	9,359,965	-	(5,927,415)	(6,794,418)
Instructional Support Services	6,047,476	614	395,554	-	(5,651,308)	(3,914,072)
Pupil Support Services	6,905,267	29,502	3,415	-	(6,872,350)	(3,709,662)
Sites and Buildings	7,807,706	13	37,875	-	(7,769,818)	(6,826,357)
Fiscal and Other Fixed Cost Programs	215,914	-	-	-	(215,914)	(181,473)
Food Service	3,794,772	1,958,315	1,968,838	-	132,381	84,341
Community Education and Services	2,056,634	787,156	604,406	-	(665,072)	(333,238)
Unallocated Depreciation	628,829	-	-	-	(628,829)	(517,536)
Interest and Fiscal Charges on Long-Term Debt	5,254,492	-	-	-	(5,254,492)	(7,146,210)
Total Governmental Activities	<u>\$ 99,237,445</u>	<u>\$ 3,512,115</u>	<u>\$ 19,373,405</u>	<u>\$ -</u>	<u>(76,351,925)</u>	<u>(69,138,781)</u>
General Revenues						
Taxes:						
Property Taxes, Levied for General Purposes					9,264,493	5,445,658
Property Taxes, Levied for Community Service					523,173	259,610
Property Taxes, Levied for Debt Service					12,470,062	12,933,157
State Aid-Formula Grants					53,626,026	47,608,165
Other General Revenues					33,402	525,628
Investment Income					119,007	331,125
Gain on Sale of Capital Assets					13,580	119,370
Total General Revenues					<u>76,049,743</u>	<u>67,222,713</u>
Change in Net Position					<u>(302,182)</u>	<u>(1,916,068)</u>
Net Position - Beginning, as Previously Stated					32,352,669	34,268,737
Change in Accounting Principle (Note 10)					<u>(51,004,185)</u>	-
Net Position - Beginning, As Restated					<u>(18,651,516)</u>	<u>34,268,737</u>
Net Position - Ending					<u>\$ (18,953,698)</u>	<u>\$ 32,352,669</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash and Investments	\$ 10,907,350	\$ 9,409,464	\$ 8,846,634
Cash with Fiscal Agent	-	-	563,011
Current Property Taxes Receivable	4,327,135	6,376,573	-
Delinquent Property Taxes Receivable	53,944	84,428	-
Accounts Receivable	6,584	-	-
Interest Receivable	-	-	1,597
Due from Department of Education	7,475,649	74,229	-
Due from Federal Government through Department of Education	793,683	-	-
Due from Other Minnesota School Districts	126,597	-	-
Due from Other Governmental Units	380,950	-	-
Inventory	-	-	-
Prepaid Items	68,261	-	117,702
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 24,140,153</u>	<u>\$ 15,944,694</u>	<u>\$ 9,528,944</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 933,109	\$ -	\$ 128,378
Contracts Payable	-	-	525,518
Salaries and Benefits Payable	7,203,340	-	1,955
Due to Other Minnesota School Districts	527,984	-	-
Due to Other Governmental Units	45	-	-
Unearned Revenue	-	-	-
Advance on Bond Proceeds	-	-	500,000
Total Liabilities	<hr/> 8,664,478	<hr/> -	<hr/> 1,155,851
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year's Expenditures	7,647,208	12,922,978	-
Unavailable Revenue - Delinquent Property Taxes	53,944	84,428	-
Total Deferred Inflows of Resources	<hr/> 7,701,152	<hr/> 13,007,406	<hr/> -
Fund Balances			
Nonspendable	68,261	-	117,702
Restricted	2,158,125	2,937,288	8,255,391
Unassigned	5,548,137	-	-
Total Fund Balances	<hr/> 7,774,523	<hr/> 2,937,288	<hr/> 8,373,093
	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,140,153</u>	<u>\$ 15,944,694</u>	<u>\$ 9,528,944</u>

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

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Nonmajor Funds	Total Governmental Funds	
	2015	2014
\$ 1,041,652	\$ 30,205,100	\$ 35,917,503
-	563,011	53,549,041
259,895	10,963,603	10,891,135
3,333	141,705	198,230
-	6,584	52,162
-	1,597	24,349
73,568	7,623,446	6,717,744
32,691	826,374	1,168,573
-	126,597	14,546
-	380,950	-
33,832	33,832	33,057
-	185,963	139,597
<u>\$ 1,444,971</u>	<u>\$ 51,058,762</u>	<u>\$ 108,705,937</u>
\$ 90,002	\$ 1,151,489	\$ 787,118
-	525,518	1,819,636
222,624	7,427,919	6,934,308
-	527,984	499,161
-	45	90
139,834	139,834	124,842
-	500,000	-
<u>452,460</u>	<u>10,272,789</u>	<u>10,165,155</u>
526,061	21,096,247	20,914,411
3,333	141,705	198,230
<u>529,394</u>	<u>21,237,952</u>	<u>21,112,641</u>
33,832	219,795	172,654
505,136	13,855,940	68,724,647
(75,851)	5,472,286	8,530,840
<u>463,117</u>	<u>19,548,021</u>	<u>77,428,141</u>
<u>\$ 1,444,971</u>	<u>\$ 51,058,762</u>	<u>\$ 108,705,937</u>

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PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
Total Fund Balances - Governmental Funds	\$ 19,548,021	\$ 77,428,141
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	203,406,934	191,982,022
Less Accumulated Depreciation	(58,132,200)	(52,949,654)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond Principal Payable	(107,220,000)	(157,650,000)
Certificates of Participation Payable	(12,565,000)	(13,175,000)
Premium on Bonds and Certificates of Participation Payable	(10,075,878)	(10,177,374)
Deferred Amount on Refunding	(745,381)	(691,219)
Compensated Absences Payable	(432,665)	(305,224)
Net OPEB Obligation	(509,632)	-
Net Pension Liability	(46,407,438)	-
Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of differences related to pensions that are not recognized in the governmental funds.		
Deferred Outflows of Resources Related to Pensions	10,249,161	-
Deferred Inflows of Resources Related to Pensions	(14,181,915)	-
Net OPEB asset created through treatment of employer contributions to a defined benefit OPEB plan is not recognized in the governmental funds.	-	643,801
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	141,705	198,230
Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.	<u>(2,029,410)</u>	<u>(2,951,054)</u>
Total Net Position - Governmental Activities	<u>\$ (18,953,698)</u>	<u>\$ 32,352,669</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

	General	Debt Service	Capital Projects
REVENUES			
Local Property Taxes	\$ 9,285,838	\$ 12,504,040	\$ -
Other Local and County Revenues	1,444,539	74,906	20,653
Revenue from State Sources	67,134,751	672,443	-
Revenue from Federal Sources	1,838,975	-	-
Sales and Other Conversion of Assets	158,973	-	-
Total Revenues	<u>79,863,076</u>	<u>13,251,389</u>	<u>20,653</u>
EXPENDITURES			
Current			
Administration	5,437,582	-	-
District Support Services	1,780,294	-	-
Elementary and Secondary Regular Instruction	38,542,795	-	-
Vocational Education Instruction	683,688	-	-
Special Education Instruction	15,337,996	-	-
Instructional Support Services	5,405,273	-	-
Pupil Support Services	6,727,114	-	-
Sites and Buildings	5,428,343	-	314,582
Fiscal and Other Fixed Cost Programs	215,914	-	-
Food Service	-	-	-
Community Education and Services	-	-	-
Capital Outlay			
Administration	99,839	-	-
District Support Services	12,497	-	-
Elementary and Secondary Regular Instruction	133,193	-	-
Vocational Education Instruction	12,239	-	-
Special Education Instruction	35,638	-	-
Instructional Support Services	1,038,490	-	-
Pupil Support Services	42,936	-	-
Sites and Buildings	419,155	-	12,064,712
Food Service	-	-	-
Community Education and Services	-	-	-
Debt Service			
Principal	610,000	62,485,000	-
Interest and Fiscal Charges	576,067	6,645,949	-
Total Expenditures	<u>82,539,053</u>	<u>69,130,949</u>	<u>12,379,294</u>
Excess of Revenues Over (Under) Expenditures	(2,675,977)	(55,879,560)	(12,358,641)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Assets	13,580	-	-
Proceeds from Bond Issuances	-	12,055,000	-
Bond Premium	-	998,546	-
Proceeds from Certificate of Participation	-	-	-
Premium on Certificate of Participation	-	-	-
Total Other Financing Sources (Uses)	<u>13,580</u>	<u>13,053,546</u>	<u>-</u>
Net Change in Fund Balances	(2,662,397)	(42,826,014)	(12,358,641)
FUND BALANCES			
Beginning of Year	<u>10,436,920</u>	<u>45,763,302</u>	<u>20,731,734</u>
End of Year	<u>\$ 7,774,523</u>	<u>\$ 2,937,288</u>	<u>\$ 8,373,093</u>

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

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Nonmajor Funds	Total Governmental Funds	
	2015	2014
\$ 524,375	\$ 22,314,253	\$ 18,718,986
791,507	2,331,605	2,277,734
807,630	68,614,824	64,588,313
1,761,263	3,600,238	3,656,143
1,958,315	2,117,288	1,879,915
<u>5,843,090</u>	<u>98,978,208</u>	<u>91,121,091</u>
-	5,437,582	4,521,361
-	1,780,294	1,348,643
-	38,542,795	35,377,923
-	683,688	718,252
-	15,337,996	14,829,013
-	5,405,273	4,544,911
-	6,727,114	6,044,213
-	5,742,925	5,361,523
-	215,914	181,473
3,740,537	3,740,537	3,421,835
1,974,288	1,974,288	1,746,124
-	99,839	74,901
-	12,497	15,667
-	133,193	167,220
-	12,239	6,866
-	35,638	50,498
-	1,038,490	607,923
-	42,936	1,777
-	12,483,867	7,474,410
159,259	159,259	38,176
2,074	2,074	15,140
-	63,095,000	49,105,000
-	7,222,016	8,791,140
<u>5,876,158</u>	<u>169,925,454</u>	<u>144,443,989</u>
(33,068)	(70,947,246)	(53,322,898)
-	13,580	119,370
-	12,055,000	-
-	998,546	-
-	-	13,175,000
-	-	190,993
-	<u>13,067,126</u>	<u>13,485,363</u>
(33,068)	(57,880,120)	(39,837,535)
<u>496,185</u>	<u>77,428,141</u>	<u>117,265,676</u>
<u>\$ 463,117</u>	<u>\$ 19,548,021</u>	<u>\$ 77,428,141</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)**

	<u>2015</u>	<u>2014</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (57,880,120)	\$ (39,837,535)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlays	11,444,382	6,452,063
Depreciation Expense	(5,202,016)	(4,937,662)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(127,441)	(23,619)
Net OPEB obligations are recognized as paid in the governmental funds. The impact on the Statement of Activities, however, is the creation of an OPEB asset, which is a combination of employer contributions and the amortization of the net OPEB obligation for the year.	(1,153,433)	(872,691)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but has no impact on net position in the Statement of Activities.	63,095,000	49,105,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	921,644	649,052
Governmental funds report the effect of bond premiums when the debt is first issued as an other financing source, whereas these amounts are deferred and amortized in the Statement of Activities.	47,334	804,885
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net position in the Statement of Activities.	(12,055,000)	(13,175,000)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.		
Pension Expense	663,993	-
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>(56,525)</u>	<u>(80,561)</u>
Change in Net Position - Governmental Activities	<u>\$ (302,182)</u>	<u>\$ (1,916,068)</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2015

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015			Variance with Final Budget - Over (Under)	2014
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Taxes	\$ 9,194,520	\$ 9,194,520	\$ 9,285,838	\$ 91,318	\$ 5,466,678
Other Local and County Revenues	954,825	954,825	1,444,539	489,714	1,209,995
Revenue from State Sources	68,234,655	68,234,655	67,134,751	(1,099,904)	63,282,157
Revenue from Federal Sources	2,078,800	2,078,800	1,838,975	(239,825)	1,989,702
Sales and Other Conversion of Assets	97,200	97,200	158,973	61,773	132,503
Total Revenues	<u>80,560,000</u>	<u>80,560,000</u>	<u>79,863,076</u>	<u>(696,924)</u>	<u>72,081,035</u>
EXPENDITURES					
Current					
Administration	4,783,247	4,792,700	5,437,582	644,882	4,521,361
District Support Services	4,828,121	4,689,771	1,780,294	(2,909,477)	1,348,643
Elementary and Secondary Regular Instruction	37,707,959	37,828,456	38,542,795	714,339	35,377,923
Vocational Education Instruction	247,597	247,597	683,688	436,091	718,252
Special Education Instruction	13,804,692	13,800,692	15,337,996	1,537,304	14,829,013
Instructional Support Services	5,847,553	5,859,953	5,405,273	(454,680)	4,544,911
Pupil Support Services	5,993,207	5,993,207	6,727,114	733,907	6,044,213
Sites and Buildings	5,198,314	5,198,314	5,428,343	230,029	5,323,331
Fiscal and Other Fixed Cost Programs	140,000	140,000	215,914	75,914	181,473
Capital Outlay					
Administration	3,000	16,400	99,839	83,439	74,901
District Support Services	69,927	66,527	12,497	(54,030)	15,667
Elementary and Secondary Regular Instruction	298,113	298,113	133,193	(164,920)	167,220
Vocational Education Instruction	8,770	8,770	12,239	3,469	6,866
Special Education Instruction	5,000	5,000	35,638	30,638	50,498
Instructional Support Services	824,000	824,000	1,038,490	214,490	607,923
Pupil Support Services	500	500	42,936	42,436	1,777
Sites and Buildings	300,000	290,000	419,155	129,155	314,283
Debt Service:					
Principal	-	-	610,000	610,000	-
Interest and Fiscal Charges	-	-	576,067	576,067	-
Total Expenditures	<u>80,060,000</u>	<u>80,060,000</u>	<u>82,539,053</u>	<u>2,479,053</u>	<u>74,128,255</u>
Excess of Revenues Over (Under) Expenditures	500,000	500,000	(2,675,977)	(3,175,977)	(2,047,220)
OTHER FINANCING SOURCES					
Proceeds from Sale of Capital Assets	-	-	13,580	13,580	-
Net Change in Fund Balance	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>(2,662,397)</u>	<u>\$ (3,162,397)</u>	<u>(2,047,220)</u>
FUND BALANCE					
Beginning of Year			10,436,920		12,484,140
Ending of Year			<u>\$ 7,774,523</u>		<u>\$ 10,436,920</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	OPEB Trust Fund	Private Purpose Trust Fund
ASSETS		
Cash and Cash Equivalents	\$ (14,661)	\$ 45,019
Investments:		
Brokered Money Markets	7,680	-
Mutual Funds - Bonds	3,454,145	-
Mutual Funds - Equity	1,717,536	-
Total Assets	<u>5,164,700</u>	<u>45,019</u>
LIABILITIES		
Accounts Payable	-	7,000
Due To Other Governments	335,300	-
Total Liabilities	<u>335,300</u>	<u>7,000</u>
NET POSITION		
Held in Trust for OPEB	4,829,400	-
Held in Trust for Scholarships	-	38,019
Total Net Position Held in Trust	<u>\$ 4,829,400</u>	<u>\$ 38,019</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2015

	OPEB Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions	\$ -	\$ 4,000
Investment Income	93,721	-
Total Additions	<u>93,721</u>	<u>4,000</u>
DEDUCTIONS		
Health Insurance Benefits	335,300	-
Scholarships	-	7,000
Total Deductions	<u>335,300</u>	<u>7,000</u>
Change in Net Position	(241,579)	(3,000)
NET POSITION		
Beginning of Year	<u>5,070,979</u>	<u>41,019</u>
End of Year	<u>\$ 4,829,400</u>	<u>\$ 38,019</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued.

B. Basic Financial Statement Information

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

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

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety and disabled accessibility projects. It is the basic operating fund of the District and accounts for all financial resources except those required to be accounted for in another fund.

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

Capital Projects Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Nonmajor Funds:

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

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

Fiduciary Funds:

OPEB Trust Fund – This Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described on the following pages.

District Governmental Funds

Deposits and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and the District to invest in obligations of the U.S. government or its agencies, municipal bonds, commercial paper, corporate bond, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. The investments of the capital projects building construction funds are not pooled and earnings on these investments are allocated directly to that fund.

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

Deposits and investments at June 30, 2015 were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The District has a formal deposit and investment policy in place as of June 30, 2015 to address the following risks:

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding federal deposit coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments (Continued)

District Governmental Funds (Continued)

Concentration of Credit Risk: The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities.

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

OPEB Trust Fund

These funds represent investments administered by the District's OPEB Fund Investment Managers. As of June 30, 2015, they were comprised of mutual funds. The District's investment policy, discussed previously, extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Inventory

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

H. Prepaid Items

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

I. Property Taxes

The District is located in Scott County.

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 10 to 50 years for site improvements and buildings and 5 to 15 years for furniture and equipment.

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Deferred Outflows/Inflows of Resources

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

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

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the 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.

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates as specified by contract, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Compensated absence benefits are paid by the General Fund and Special Revenue Funds. Unused vacation is accrued as it is earned in the government-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

Under the terms of certain collectively bargained employment contracts, the District is required to contribute health insurance premiums or to a health savings account for certain retired employees. The amount to be paid is limited as specified by contract.

Additional details for post employment health benefits can be found in Note 8.

O. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. Additional information can be found in TRA Note 7.F.

P. Risk Management

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

Q. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for inventory and prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions by either a) creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation.

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Q. Fund Equity (Continued)

- Committed Fund Balances – The District’s highest level of decision making authority is the School Board. The formal action to establish or modify a commitment is through a resolution.
- Assigned Fund Balances – The School Board has not delegated anyone the power to assign balances for specific purposes. Amounts that are constrained by the District’s intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

The District’s fund balance policy includes a target unassigned General Fund balance goal of 12%.

R. Net Position

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

S. Use of Estimates

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

T. Comparative Data/Reclassifications

Comparative total data for the prior year has been presented by fund types and in total in the fund financial statements and government-wide statements in order to provide an understanding of the changes in financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with this year’s presentation.

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. Prior to July 1, the Director of Finance submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Director of Finance 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, Food Service, Community Service, Capital Projects and Debt Service Funds.
4. Budgets for the General, Food Service, Community Service, Capital Projects and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

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

	<u>Appropriations</u>	<u>Expenditures</u>
General Fund	\$ 80,060,000	\$ 82,539,053
Debt Service Fund	13,230,000	69,130,949
Capital Projects Fund	12,200,000	12,379,294
Food Service Fund	3,650,000	3,899,796
Community Service Fund	1,900,000	1,976,362

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

District Funds and OPEB Trust Fund

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

Custodial Credit Risk – Deposits: As of June 30, 2015, the District’s bank balance of \$ 2,814,399 was not exposed to custodial credit risk because it was insured by FDIC insurance or fully collateralized.

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

Checking - District Governmental Funds	\$ 385,656
Negotiable Certificates of Deposit - District Governmental Funds	2,232,000
Checking - OPEB Trust Fund	(14,661)
Checking - Private Purpose Trust Fund	<u>45,019</u>
 Total Deposits	 <u><u>\$ 2,648,014</u></u>

B. Investments

District Governmental Funds

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

Investment Type	Fair Value	Investment Maturities		S&P Rating
		Less than 1 Year	1-5 Years	
MSDLAF+ Term	\$ 13,600,000	\$ 13,600,000	\$ -	AAAf
MSDLAF+ Liquid Class	4,578,324	4,578,324	-	AAAm
MSDLAF+ MAX Class	9,407,380	9,407,380	-	AAAm
Commercial Paper	<u>563,011</u>	<u>563,011</u>	-	N/A
 Total Investments	 <u><u>\$ 28,148,715</u></u>	 <u><u>\$ 28,148,715</u></u>	 <u><u>\$ -</u></u>	

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

OPEB Trust Fund

As of June 30, 2015, the District's OPEB Trust Fund had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Rating</u>
Mutual Funds - Bonds	\$ 3,454,145	N/A
Mutual Funds - Equity	1,717,536	N/A
Brokered Money Markets	<u>7,680</u>	N/A
 Total Investments	 <u><u>\$ 5,179,361</u></u>	

C. Deposits and Investments

The following is a summary of total deposits and investments:

District Governmental Funds:	
Deposits (Note 3.A.)	\$ 2,617,656
Investments (Note 3.B.)	28,148,715
Petty Cash	1,740
Private Purpose Trust Fund:	
Deposits (Note 3.A.)	45,019
OPEB Trust Fund:	
Deposits (Note 3.A.)	(14,661)
Investments (Note 3.B.)	<u>5,179,361</u>
 Total Deposits and Investments	 <u><u>\$ 35,977,830</u></u>

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

Statement of Net Position:	
Cash and Investments	\$ 30,205,100
Cash with Fiscal Agent	563,011
Statement of Fiduciary Net Position:	
Private Purpose Trust Fund	45,019
OPEB Trust Fund	<u>5,164,700</u>
 Total Deposits and Investments	 <u><u>\$ 35,977,830</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 13,987,802	\$ -	\$ -	\$ 13,987,802
Construction in Progress	<u>4,593,313</u>	<u>7,737,613</u>	<u>7,441,536</u>	<u>4,889,390</u>
Total Capital Assets not being Depreciated	<u>18,581,115</u>	<u>7,737,613</u>	<u>7,441,536</u>	<u>18,877,192</u>
Capital Assets being Depreciated:				
Site Improvements	6,631,242	221,958	-	6,853,200
Buildings	153,466,862	7,865,951	-	161,332,813
Furniture and Equipment	<u>13,302,803</u>	<u>3,060,396</u>	<u>19,470</u>	<u>16,343,729</u>
Total Capital Assets being Depreciated	<u>173,400,907</u>	<u>11,148,305</u>	<u>19,470</u>	<u>184,529,742</u>
Less Accumulated Depreciation for:				
Site Improvements	3,510,669	286,805	-	3,797,474
Buildings	42,274,055	3,535,973	-	45,810,028
Furniture and Equipment	<u>7,164,930</u>	<u>1,379,238</u>	<u>19,470</u>	<u>8,524,698</u>
Total Accumulated Depreciation	<u>52,949,654</u>	<u>5,202,016</u>	<u>19,470</u>	<u>58,132,200</u>
Total Capital Assets being Depreciated, Net	<u>120,451,253</u>	<u>5,946,289</u>	<u>-</u>	<u>126,397,542</u>
Governmental Activities Capital Assets, Net	<u>\$ 139,032,368</u>	<u>\$ 13,683,902</u>	<u>\$ 7,441,536</u>	<u>\$ 145,274,734</u>

Depreciation expense of \$ 5,202,016 for the year ended June 30, 2015 was charged to the following governmental functions.

Administration	\$ 576
District Support Services	56,639
Elementary and Secondary Regular Instruction	3,812,104
Special Education Instruction	7,639
Instructional Support Services	555
Pupil Support	149,811
Sites and Buildings	446,112
Food Service	15,552
Community Service	84,199
Unallocated	<u>628,829</u>
Total Depreciation Expense	<u>\$ 5,202,016</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One year</u>
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
2008A School Building Bonds	03/05/08	2.00%-5.00%	\$ 25,000,000	02/01/26	\$ 20,305,000	\$ 1,145,000
2012A Crossover Refunding Bonds	02/01/12	3.00%-5.00%	39,000,000	02/01/25	36,535,000	2,500,000
2013A Crossover Refunding Bonds	02/21/13	3.00%-5.00%	38,325,000	02/01/26	38,325,000	1,860,000
2014A Refunding Bonds	12/16/14	3.00%-5.00%	12,055,000	02/01/22	12,055,000	3,355,000
Total G.O. Bonds					<u>107,220,000</u>	<u>8,860,000</u>
Certificates of Participation						
2013B Certificates of Participation	12/30/13	2.00-4.50%	13,175,000	02/01/33	12,565,000	525,000
Unamortized Bond Premium					10,075,878	-
Compensated Absences Payable					<u>432,665</u>	<u>432,665</u>
Total all Long-Term Liabilities					<u>\$ 130,293,543</u>	<u>\$ 9,817,665</u>

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

In February 2013, the District issued G.O. School Building Crossover Refunding Bonds, Series 2013A in the amount of \$ 38,325,000. The Bonds were issued to refund the G.O. School Building Bonds, Series 2005A and 2006A at the crossover date of February 1, 2015. The total cash savings to the District was \$ 4,440,312 with a net present value benefit of \$ 3,805,790.

In December 2014, the District issued G.O. Refunding Bonds, Series 2014A in the amount of \$ 12,055,000. The Bonds were issued to refund the G.O. School Building Refunding Bonds, Series 2006B at the call date of February 1, 2015. The total cash savings to the District was \$ 1,006,002 with a net present value benefit of \$ 944,643.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 – LONG-TERM DEBT

B. Minimum Debt Payments for Bonds and Certificate of Participation

Minimum annual principal and interest payments required to retire bond and certificate of participation liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2016	\$ 8,860,000	\$ 4,366,569	\$ 13,226,569
2017	9,445,000	4,021,363	13,466,363
2018	8,200,000	3,691,713	11,891,713
2019	8,520,000	3,371,613	11,891,613
2020	8,890,000	3,001,413	11,891,413
2021-2025	51,265,000	8,724,013	59,989,013
2026	12,040,000	495,788	12,535,788
Total	\$ 107,220,000	\$ 27,672,472	\$ 134,892,472

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2016	\$ 525,000	\$ 482,419	\$ 1,007,419
2017	545,000	471,919	1,016,919
2018	565,000	461,019	1,026,019
2019	590,000	444,069	1,034,069
2020	610,000	426,369	1,036,369
2021-2025	3,305,000	1,780,944	5,085,944
2026-2030	3,865,000	1,076,480	4,941,480
2031-2033	2,560,000	233,000	2,793,000
Total	\$ 12,565,000	\$ 5,376,219	\$ 17,941,219

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-Term Liabilities:				
G.O. Bonds	\$ 157,650,000	\$ 12,055,000	\$ 62,485,000	\$ 107,220,000
Certificates of Participation	13,175,000	-	610,000	12,565,000
Premium	10,868,593	998,546	1,791,261	10,075,878
Compensated Absences Payable	<u>305,224</u>	<u>505,310</u>	<u>377,869</u>	<u>432,665</u>
Total Long-Term Liabilities	<u>\$ 181,998,817</u>	<u>\$ 13,558,856</u>	<u>\$ 65,264,130</u>	<u>\$ 130,293,543</u>

D. Operating Lease Obligations

The District leases space for the Area Learning Center which is classified as an operating lease, which expires in 2019. Total lease expenditures for 2015 were \$ 175,632.

The District also has two three year options after the lease expires on July 31, 2019, which are not included in the payment schedule on the following page.

Option Term 1

Annual Rent per Square Foot – \$ 6.00

Monthly Base Rent – \$ 6,175.50

Option Term 2

Annual Rent per Square Foot – \$ 7.00

Monthly Base Rent – \$ 7,204.75

Beginning on November 1, 2014, the District began leasing space for the District Office which is classified as an operating lease, the last of which expires in 2019. Total lease expenditures for 2015 were \$ 271,285.

The District also has two three year options after the lease expires on October 31, 2019, which are not included in the payment schedule on the following page.

Option Term 1

Annual Rent per Square Foot – \$ 9.50

Monthly Base Rent – \$ 20,134.46

Option Term 2

Annual Rent per Square Foot – \$ 10.50

Monthly Base Rent – \$ 22,253.88

INDEPENDENT SCHOOL DISTRICT NO. 720
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 – LONG-TERM DEBT

D. Operating Lease Obligations (Continued)

Minimum future rental payments under the non-cancelable operating leases are:

<u>Year Ending</u> <u>June 30,</u>	
2016	\$ 530,438
2017	530,438
2018	553,082
2019	555,140
2020	<u>147,994</u>
Total	<u>\$ 2,317,092</u>

NOTE 6 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund balances are classified below to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Inventory	\$ -	\$ -	\$ -	\$ 33,832	\$ 33,832
Prepaid Items	68,261	-	117,702	-	185,963
Total Nonspendable	<u>68,261</u>	<u>-</u>	<u>117,702</u>	<u>33,832</u>	<u>219,795</u>
Restricted/Reserved for:					
Operating Capital	2,158,125	-	-	-	2,158,125
Early Childhood and Family Education	-	-	-	15,277	15,277
School Readiness	-	-	-	73,255	73,255
Debt Service	-	2,937,288	-	-	2,937,288
Capital Projects	-	-	8,003,057	-	8,003,057
Building Projects Funded by COP	-	-	252,334	-	252,334
Food Service	-	-	-	416,604	416,604
Total Restricted/ Reserved	<u>2,158,125</u>	<u>2,937,288</u>	<u>8,255,391</u>	<u>505,136</u>	<u>13,855,940</u>
Unassigned	<u>5,548,137</u>	<u>-</u>	<u>-</u>	<u>(75,851)</u>	<u>5,472,286</u>
Total Fund Balance	<u>\$ 7,774,523</u>	<u>\$ 2,937,288</u>	<u>\$ 8,373,093</u>	<u>\$ 463,117</u>	<u>\$ 19,548,021</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 6 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

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

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

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. The balance as of June 30, 2015 is a deficit (negative) \$ 770,198 which is presented within unassigned fund balance for the purposes of reporting in accordance with generally accepted accounting principles

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

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs. The balance as of June 30, 2015 is a deficit (negative) \$ 75,851 which is presented within unassigned fund balance for the purposes of reporting in accordance with generally accepted accounting principles.

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

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

Restricted/Reserved for Debt Service – This balance represents the balance of the Debt Service Fund available for future debt principal and interest payments.

Restricted/Reserved for Capital Projects – This balance represents the balance of the Capital Projects Fund available for future capital purchases.

Restricted/Reserved for Building Projects Funded by Certificates of Participation/Lease Purchase Agreement with Related Lease Levy Authority – This balance represents available resources in the Capital Projects Fund for projects funded by certificates of participation/lease purchase agreements with related lease levy authority under *Minnesota Statutes*, Section 126C.40.

Restricted/Reserved for Food Service – This balance represents the balance of the Food Service Fund that is available for future food service expenditures.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, Debt Service and Capital Projects Funds.

INDEPENDENT SCHOOL DISTRICT NO. 720
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

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

Tier I Benefits

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

INDEPENDENT SCHOOL DISTRICT NO. 720
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

With these provisions:

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

Tier II Benefits

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

C. Contribution Rate

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Investment Rate of Return	8.25%
Wage Inflation	3.00%
Projected Salary Increase	3.5-12%, based on years of service
Cost of Living Adjustment	2.0% until year 2034, 2.5% thereafter

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

E. Discount Rate

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2015, the District reported a liability of \$ 37,172,155 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 0.8067% at the end of the measurement period and 0.7605% 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	\$ 37,172,155
State's proportionate share of the net pension liability associated with the District	2,615,162

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. Note 7.C. contains the rate information.

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

For the year ended June 30, 2015, the district recognized pension expense of \$ 2,444,970. It also recognized \$ 114,081 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 3,171,791	\$ -
Net Difference Between Projected and Actual Earnings on Plan Investments	-	11,686,550
Changes in Proportion	2,192,579	-
District's Contributions to TRA Subsequent to the Measurement Date	<u>2,990,578</u>	<u>-</u>
Total	<u>\$ 8,354,948</u>	<u>\$ 11,686,550</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association (Continued)

F. Net Pension Liability (Continued)

\$ 2,990,578 reported as deferred outflows of resources related to pensions resulting from school contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

<u>June 30,</u>	<u>Amount</u>
2016	\$ (1,801,727)
2017	(1,801,727)
2018	(1,801,728)
2019	(1,801,727)
2020	884,729

G. Pension Liability Sensitivity

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

<u>District proportionate share of NPL</u>		
<u>1% decrease (7.25%)</u>	<u>Current (8.25%)</u>	<u>1% increase (9.25%)</u>
\$ 61,432,843	\$ 37,172,155	\$ 16,947,129

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

H. Pension Plan Fiduciary Net Position

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

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

B. Benefits Provided

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

GERF Benefits

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

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

C. Contributions

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

GERF Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were \$ 748,212. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2015, the District reported a liability of \$ 9,235,283 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 0.1966%.

For the year ended June 30, 2015, the District recognized pension expense of \$ 685,584 for its proportionate share of GERF's pension expense.

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

INDEPENDENT SCHOOL DISTRICT NO. 720
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

D. Pension Costs (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 141,732	\$ -
Changes in Actuarial Assumptions	951,788	-
Difference Between Projected and Actual Investments Earnings	-	2,495,365
District's Contributions to GERF Subsequent to the Measurement Date	<u>800,691</u>	<u>-</u>
Total	<u>\$ 1,894,211</u>	<u>\$ 2,495,365</u>

\$ 800,691 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:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2016	\$ (259,334)
2017	(259,334)
2018	(259,335)
2019	(623,842)

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2016	\$ (259,334)
2017	(259,334)
2018	(259,335)
2019	(623,842)

INDEPENDENT SCHOOL DISTRICT NO. 720
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

E. Actuarial Assumptions

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

GERF

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

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

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, to 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 for GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rates

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

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF Discount Rate	6.9%	7.9%	8.9%
District's Proportionate share of the GERF net pension liability	\$ 14,887,649	\$ 9,235,283	\$ 4,584,716

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about GERP'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 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides post employment insurance benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare or a limited number of years depending on the contractual language. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these District paid premium benefits must pay the full District premium rate for their coverage.

B. Funding Policy

Retirees and their families have access to the health care plan at the same premium rate as District employees. This results in the retirees receiving an implicit rate subsidy. The premiums are based on the contract terms with HealthPartners. The required contributions are on projected pay-as-you-go financing requirements. For 2015, the District contributed \$ 203,057 through pay-as-you-go. As of June 30, 2015, the District decided to pay retiree benefits on a pay-as-you-go basis as well as draw a contribution from the OPEB Plan. The District drew \$ 335,300 from the OPEB Plan during 2015. Administrative costs of the plan are financed through investment earnings.

As of June 30, 2015, there were 42 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 1,032 active participants and dependents.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 1,330,436
Interest on Net OPEB Obligation	(25,752)
Adjustment to ARC	51,806
Annual OPEB Cost (Expense)	<u>1,356,490</u>
Employer Contributions	(538,357)
Contribution from Irrevocable Trust	<u>335,300</u>
Increase in Net OPEB Obligation	1,153,433
Net OPEB Obligation - Beginning of Year	<u>(643,801)</u>
 Net OPEB Obligation - End of Year	 <u><u>\$ 509,632</u></u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/13	\$ 1,406,651	\$ 570,394	41%	\$ (1,516,492)
06/30/14	1,454,781	582,090	40%	(643,801)
06/30/15	1,356,490	538,357	40%	509,632

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had \$ 5,070,979 of assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 11,015,848 and the actuarial value of assets was \$ 5,070,979, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 5,944,869. The covered payroll (annual payroll of active employees covered by the plan) was \$ 45,515,481, and the ratio of the UAAL to the covered payroll was 13.1%. In 2009, the District established an irrevocable trust fund by contributing from the General Fund to partially fund the Plan. The District contributed an additional \$ 330,000 to the Trust Fund in 2010 and \$ 250,000 in 2012. The District drew \$ 335,300 during 2015 to cover a portion of the OPEB costs that year. As of June 30, 2015, the ending market value of these assets was \$ 5,164,700.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

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

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

E. Actuarial Methods and Assumptions

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

As of July 1, 2014, the actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate. At the actuarial valuation date, the annual health care cost trend was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after 10 years. Both rates include a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2015 was 30 years.

F. Condensed Financial Statements

The financial statements for the OPEB Plan are reported on the following page because the OPEB Plan does not issue a separate financial report.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

F. Condensed Financial Statements (Continued)

STATEMENT OF PLAN NET POSITION
June 30, 2015

ASSETS

Cash and Cash Equivalents	\$ (14,661)
Investments:	
Mutual Funds - Bonds	3,454,145
Mutual Funds - Equity	1,717,536
Brokered Money Markets	<u>7,680</u>
Total Assets Held in Trust for OPEB	<u>\$ 5,164,700</u>

LIABILITIES

Due to Other Governments	<u>\$ 335,300</u>
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NET POSITION

Net Position Held in Trust for OPEB	<u>\$ 4,829,400</u>
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STATEMENT OF CHANGES IN PLAN NET POSITION
For the Year Ended June 30, 2015

ADDITIONS

Investment Income	\$ 93,721
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DEDUCTIONS

Health Insurance	<u>335,300</u>
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Change in Net Position	(241,579)
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NET POSITION HELD IN TRUST FOR OPEB

Beginning of the Year	<u>5,070,979</u>
End of the Year	<u>\$ 4,829,400</u>

1. Notes to the Condensed Financial Statements

a. Plan Provisions

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

F. Condensed Financial Statements (Continued)

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements shown on the previous page were prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

b. Investments

The details of the investments and the investment policy are described in Note 1.D. of the District's Notes to the Financial Statements.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make various estimates. Actual results could differ from those estimates.

NOTE 9 – COMMITMENTS

As of June 30, 2014, the District had the following commitments:

<u>Project</u>	<u>Project Authorization</u>	<u>Work Completed</u>	<u>Remaining Commitment</u>
West Jr. High School	\$1,053,500	\$ 425,708	\$ 627,792
Sun Path Kindergarten Addition	1,923,423	1,875,338	48,085
Jackson Kindergarten Addition	1,820,819	1,775,298	45,521

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 51,004,185 to add the beginning net pension liability.

NOTE 11 – SUBSEQUENT EVENTS

On July 13, 2015, the District approved purchasing 20 acres of land adjacent to the District's currently owned property along County Roads 78 and 79 in the amount of \$ 875,000 to be used for future building opportunities.

INDEPENDENT SCHOOL DISTRICT NO. 720

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 – SUBSEQUENT EVENTS

On July 20, 2015, the District issued G.O. School Building Bonds, Series 2015A in the amount of \$ 85,030,000 with an interest rate of 3% to 5%.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

PRELIMINARY

REQUIRED SUPPLEMENTARY INFORMATION

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/10	\$ 4,153,513	\$ 9,508,116	\$ 5,354,603	43.7%	\$ 34,739,922	15.4%
07/01/12	4,637,751	10,919,814	6,282,063	42.5%	37,148,281	16.9%
07/01/14	5,070,979	11,015,848	5,944,869	46.0%	45,515,481	13.1%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OTHER POST EMPLOYMENT BENEFITS
June 30, 2015**

Year Ended June 30,	Annual Required Contribution	Total Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2013	\$ 1,357,260	\$ 570,394	42%	\$ (1,516,492)
2014	1,416,433	582,090	41%	(643,801)
2015	1,330,436	203,057	15%	509,632

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY - GERF RETIREMENT FUND
LAST TEN YEARS***

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1966%	\$ 9,235,283	\$ 10,320,166	89.49%	78.75%

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.8067%	\$ 37,172,155	\$ 2,615,162	\$ 39,787,317	\$ 36,823,970	100.9%	81.5%

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF DISTRICT CONTRIBUTIONS -
GERF RETIREMENT FUND
LAST TEN YEARS***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 748,212	\$ 748,212	\$ -	\$ 10,320,166	7.25%

**SCHEDULE OF DISTRICT CONTRIBUTIONS -
TRA RETIREMENT FUND
LAST TEN YEARS***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 2,577,678	\$ 2,577,678	\$ -	\$ 36,823,970	7.0%

* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

PRELIMINARY

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 720

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015**

		<u>Special Revenue</u>	
		<u>Community</u>	
	<u>Food Service</u>	<u>Service</u>	<u>Total</u>
ASSETS			
Cash and Investments	\$ 580,852	\$ 460,800	\$ 1,041,652
Current Property Taxes Receivable	-	259,895	259,895
Delinquent Property Taxes Receivable	-	3,333	3,333
Accounts Receivable	-	-	-
Due from Department of Education	13,724	59,844	73,568
Due from Federal Government through Department of Education	32,691	-	32,691
Inventory	33,832	-	33,832
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 661,099</u>	<u>\$ 783,872</u>	<u>\$ 1,444,971</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 27,619	\$ 62,383	\$ 90,002
Salaries and Benefits Payable	107,905	114,719	222,624
Unearned Revenue	75,139	64,695	139,834
Total Liabilities	<u>210,663</u>	<u>241,797</u>	<u>452,460</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year's Expenditures	-	526,061	526,061
Unavailable Revenue - Delinquent Property Taxes	-	3,333	3,333
Total Deferred Inflows of Resources	<u>-</u>	<u>529,394</u>	<u>529,394</u>
Fund Balances			
Nonspendable	33,832	-	33,832
Restricted for:			
Early Childhood and Family Education Programs	-	15,277	15,277
School Readiness	-	73,255	73,255
Food Service	416,604	-	416,604
Unassigned	-	(75,851)	(75,851)
Total Fund Balances	<u>450,436</u>	<u>12,681</u>	<u>463,117</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 661,099</u>	<u>\$ 783,872</u>	<u>\$ 1,444,971</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

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

	Special Revenue		
	Food Service	Community Service	Total
REVENUES			
Local Property Taxes	\$ -	\$ 524,375	\$ 524,375
Other Local and County Revenues	-	791,507	791,507
Revenue from State Sources	207,575	600,055	807,630
Revenue from Federal Sources	1,761,263	-	1,761,263
Sales and Other Conversion of Assets	1,958,315	-	1,958,315
Total Revenues	<u>3,927,153</u>	<u>1,915,937</u>	<u>5,843,090</u>
EXPENDITURES			
Current			
Food Service	3,740,537	-	3,740,537
Community Education and Services	-	1,974,288	1,974,288
Capital Outlay			
Food Service	159,259	-	159,259
Community Education and Services	-	2,074	2,074
Total Expenditures	<u>3,899,796</u>	<u>1,976,362</u>	<u>5,876,158</u>
Excess of Revenues Over (Under) Expenditures	27,357	(60,425)	(33,068)
FUND BALANCES			
Beginning of Year	<u>423,079</u>	<u>73,106</u>	<u>496,185</u>
End of Year	<u>\$ 450,436</u>	<u>\$ 12,681</u>	<u>\$ 463,117</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - GENERAL FUND

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 10,907,350	\$ 14,361,229
Current Property Taxes Receivable	4,327,135	4,429,321
Delinquent Property Taxes Receivable	53,944	75,289
Accounts Receivable	6,584	19,334
Due from Department of Education	7,475,649	6,580,703
Due from Federal Government through Department of Education	793,683	899,010
Due from Other Minnesota School Districts	126,597	14,546
Due from Other Governmental Units	380,950	-
Prepaid Items	68,261	96
	<u>\$ 24,140,153</u>	<u>\$ 26,379,528</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 933,109	\$ 678,558
Salaries and Benefits Payable	7,203,340	6,819,856
Due to Other Minnesota School Districts	527,984	499,161
Due to Other Governmental Units	45	90
Total Liabilities	<u>8,664,478</u>	<u>7,997,665</u>
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	7,647,208	7,869,654
Unavailable Revenue - Delinquent Property Taxes	53,944	75,289
Total Deferred Inflows of Resources	<u>7,701,152</u>	<u>7,944,943</u>
Fund Balance		
Nonspendable	68,261	96
Restricted	2,158,125	1,905,984
Unassigned	5,548,137	8,530,840
Total Fund Balance	<u>7,774,523</u>	<u>10,436,920</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 24,140,153</u>	<u>\$ 26,379,528</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2015

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015			Variance with Final Budget - Over (Under)	2014
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Taxes	\$ 9,194,520	\$ 9,194,520	\$ 9,285,838	\$ 91,318	\$ 5,466,678
Other Local and County Revenues	954,825	954,825	1,444,539	489,714	1,209,995
Revenue from State Sources	68,234,655	68,234,655	67,134,751	(1,099,904)	63,282,157
Revenue from Federal Sources	2,078,800	2,078,800	1,838,975	(239,825)	1,989,702
Sales and Other Conversion of Assets	97,200	97,200	158,973	61,773	132,503
Total Revenues	<u>80,560,000</u>	<u>80,560,000</u>	<u>79,863,076</u>	<u>(696,924)</u>	<u>72,081,035</u>
EXPENDITURES					
Current					
Administration	4,783,247	4,792,700	5,437,582	644,882	4,521,361
District Support Services	4,828,121	4,689,771	1,780,294	(2,909,477)	1,348,643
Elementary and Secondary Regular Instruction	37,707,959	37,828,456	38,542,795	714,339	35,377,923
Vocational Education Instruction	247,597	247,597	683,688	436,091	718,252
Special Education Instruction	13,804,692	13,800,692	15,337,996	1,537,304	14,829,013
Instructional Support Services	5,847,553	5,859,953	5,405,273	(454,680)	4,544,911
Pupil Support Services	5,993,207	5,993,207	6,727,114	733,907	6,044,213
Sites and Buildings	5,198,314	5,198,314	5,428,343	230,029	5,323,331
Fiscal and Other Fixed Cost Programs	140,000	140,000	215,914	75,914	181,473
Capital Outlay					
Administration	3,000	16,400	99,839	83,439	74,901
District Support Services	69,927	66,527	12,497	(54,030)	15,667
Elementary and Secondary Regular Instruction	298,113	298,113	133,193	(164,920)	167,220
Vocational Education Instruction	8,770	8,770	12,239	3,469	6,866
Special Education Instruction	5,000	5,000	35,638	30,638	50,498
Instructional Support Services	824,000	824,000	1,038,490	214,490	607,923
Pupil Support Services	500	500	42,936	42,436	1,777
Sites and Buildings	300,000	290,000	419,155	129,155	314,283
Debt Service:					
Principal	-	-	610,000	610,000	-
Interest and Fiscal Charges	-	-	576,067	576,067	-
Total Expenditures	<u>80,060,000</u>	<u>80,060,000</u>	<u>82,539,053</u>	<u>2,479,053</u>	<u>74,128,255</u>
Excess of Revenues Over (Under) Expenditures	500,000	500,000	(2,675,977)	(3,175,977)	(2,047,220)
OTHER FINANCING SOURCES					
Proceeds from Sale of Capital Assets	-	-	13,580	13,580	-
Net Change in Fund Balance	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>(2,662,397)</u>	<u>\$ (3,162,397)</u>	<u>(2,047,220)</u>
FUND BALANCE					
Beginning of Year			<u>10,436,920</u>		<u>12,484,140</u>
Ending of Year			<u>\$ 7,774,523</u>		<u>\$ 10,436,920</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - FOOD SERVICE FUND

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 580,852	\$ 194,989
Accounts Receivable	-	28,838
Due from Department of Education	13,724	20,956
Due from Federal Government through Department of Education	32,691	269,563
Inventory	<u>33,832</u>	<u>33,057</u>
Total Assets	<u>\$ 661,099</u>	<u>\$ 547,403</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 27,619	\$ 50,452
Salaries and Benefits Payable	107,905	5,968
Unearned Revenue	75,139	67,904
Total Liabilities	<u>210,663</u>	<u>124,324</u>
Fund Balance		
Nonspendable	33,832	33,057
Restricted	416,604	390,022
Total Fund Balance	<u>450,436</u>	<u>423,079</u>
Total Liabilities and Fund Balance	<u>\$ 661,099</u>	<u>\$ 547,403</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

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

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015		Variance with Final Budget - Over (Under)	2014
	Original and Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Other Local and County Revenues	\$ 2,000	\$ -	\$ (2,000)	\$ 877
Revenue from State Sources	145,000	207,575	62,575	141,295
Revenue from Federal Sources	1,731,000	1,761,263	30,263	1,666,441
Sales and Other Conversion of Assets	1,792,000	1,958,315	166,315	1,747,412
Total Revenues	<u>3,670,000</u>	<u>3,927,153</u>	<u>257,153</u>	<u>3,556,025</u>
EXPENDITURES				
Current				
Food Service	3,600,000	3,740,537	140,537	3,421,835
Capital Outlay				
Food Service	50,000	159,259	109,259	38,176
Total Expenditures	<u>3,650,000</u>	<u>3,899,796</u>	<u>249,796</u>	<u>3,460,011</u>
Net Change in Fund Balance	<u>\$ 20,000</u>	27,357	<u>\$ 7,357</u>	96,014
FUND BALANCE				
Beginning of Year		<u>423,079</u>		<u>327,065</u>
Ending of Year		<u>\$ 450,436</u>		<u>\$ 423,079</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - COMMUNITY SERVICE FUND

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 460,800	\$ 450,534
Current Property Taxes Receivable	259,895	260,374
Delinquent Property Taxes Receivable	3,333	4,535
Accounts Receivable	-	3,990
Due from Department of Education	59,844	52,768
	<u>59,844</u>	<u>52,768</u>
Total Assets	<u>\$ 783,872</u>	<u>\$ 772,201</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 62,383	\$ 2,726
Salaries and Benefits Payable	114,719	108,484
Unearned Revenue	64,695	56,938
Total Liabilities	<u>241,797</u>	<u>168,148</u>
 Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	526,061	526,412
Unavailable Revenue - Delinquent Property Taxes	3,333	4,535
Total Deferred Inflows of Resources	<u>529,394</u>	<u>530,947</u>
 Fund Balance		
Restricted for:		
Community Education Programs	-	6,546
Early Childhood and Family Education Programs	15,277	5,162
School Readiness	73,255	61,398
Unassigned	(75,851)	-
Total Fund Balance	<u>12,681</u>	<u>73,106</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 783,872</u>	<u>\$ 772,201</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND**

For the Year Ended June 30, 2015

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015		Variance with Final Budget - Over (Under)	2014
	Original and Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Property Taxes	\$ 518,265	\$ 524,375	\$ 6,110	\$ 261,608
Other Local and County Revenues	738,350	791,507	53,157	731,636
Revenue from State Sources	668,385	600,055	(68,330)	774,026
Total Revenues	<u>1,925,000</u>	<u>1,915,937</u>	<u>(9,063)</u>	<u>1,767,270</u>
EXPENDITURES				
Current				
Community Education and Services	1,899,100	1,974,288	75,188	1,746,124
Capital Outlay				
Community Education and Services	900	2,074	1,174	15,140
Total Expenditures	<u>1,900,000</u>	<u>1,976,362</u>	<u>76,362</u>	<u>1,761,264</u>
Net Change in Fund Balance	<u>\$ 25,000</u>	<u>(60,425)</u>	<u>\$ (85,425)</u>	<u>6,006</u>
FUND BALANCE				
Beginning of Year		<u>73,106</u>		<u>67,100</u>
Ending of Year		<u>\$ 12,681</u>		<u>\$ 73,106</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - DEBT SERVICE FUND

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 9,409,464	\$ 9,235,050
Cash with Fiscal Agent	-	42,781,840
Current Property Taxes Receivable	6,376,573	6,201,440
Delinquent Property Taxes Receivable	84,428	118,406
Due from Department of Education	74,229	63,317
	<u> </u>	<u> </u>
Total Assets	<u>\$ 15,944,694</u>	<u>\$ 58,400,053</u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	\$ 12,922,978	\$ 12,518,345
Unavailable Revenue - Delinquent Property Taxes	84,428	118,406
Total Deferred Inflows of Resources	<u>13,007,406</u>	<u>12,636,751</u>
 Fund Balance		
Restricted	<u>2,937,288</u>	<u>45,763,302</u>
	<u> </u>	<u> </u>
Total Deferred Inflows of Resources and Fund Balance	<u>\$ 15,944,694</u>	<u>\$ 58,400,053</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DEBT SERVICE FUND**

For the Year Ended June 30, 2015

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015		Variance with Final Budget - Over (Under)	2014
	Original and Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Property Taxes	\$ 12,513,900	\$ 12,504,040	\$ (9,860)	\$ 12,990,700
Other Local and County Revenues	10,000	74,906	64,906	237,971
Revenue from State Sources	666,100	672,443	6,343	390,835
Total Revenues	<u>13,190,000</u>	<u>13,251,389</u>	<u>61,389</u>	<u>13,619,506</u>
EXPENDITURES				
Debt Service				
Principal	8,330,000	62,485,000	54,155,000	49,105,000
Interest and Fiscal Charges	4,900,000	6,645,949	1,745,949	8,791,140
Total Expenditures	<u>13,230,000</u>	<u>69,130,949</u>	<u>55,900,949</u>	<u>57,896,140</u>
Excess of Revenues Under Expenditures	(40,000)	(55,879,560)	(55,839,560)	(44,276,634)
OTHER FINANCING SOURCES				
Bond Issuance	-	12,055,000	12,055,000	-
Bond Premium	-	998,546	998,546	-
Total Other Financing Sources	<u>-</u>	<u>13,053,546</u>	<u>13,053,546</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (40,000)</u>	<u>(42,826,014)</u>	<u>\$ (42,786,014)</u>	<u>(44,276,634)</u>
FUND BALANCE				
Beginning of Year		<u>45,763,302</u>		<u>90,039,936</u>
Ending of Year		<u>\$ 2,937,288</u>		<u>\$ 45,763,302</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

BALANCE SHEET - CAPITAL PROJECTS FUND

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 8,846,634	\$ 11,675,701
Cash with Fiscal Agent	563,011	10,767,201
Interest Receivable	1,597	24,349
Prepaid Items	<u>117,702</u>	<u>139,501</u>
 Total Assets	 <u>\$ 9,528,944</u>	 <u>\$ 22,606,752</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 128,378	\$ 55,382
Contracts Payable	525,518	1,819,636
Salaries and Benefits Payable	1,955	-
Advance on Bond Proceeds	<u>500,000</u>	<u>-</u>
Total Liabilities	1,155,851	1,875,018
 Fund Balance		
Nonspendable	117,702	139,501
Restricted	<u>8,255,391</u>	<u>20,592,233</u>
Total Fund Balance	<u>8,373,093</u>	<u>20,731,734</u>
 Total Liabilities and Fund Balance	 <u>\$ 9,528,944</u>	 <u>\$ 22,606,752</u>

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND**

For the Year Ended June 30, 2015

(With Comparative Actual Amounts for the Year Ended June 30, 2014)

	2015		Variance with Final Budget - Over (Under)	2014
	Original and Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Other Local and County Revenues	\$ 35,000	\$ 20,653	\$ (14,347)	\$ 97,255
EXPENDITURES				
Current				
Sites and Buildings	-	314,582	314,582	38,192
Capital Outlay				
Sites and Buildings	12,200,000	12,064,712	(135,288)	7,160,127
Total Expenditures	12,200,000	12,379,294	179,294	7,198,319
Excess of Revenues Under Expenditures	(12,165,000)	(12,358,641)	(193,641)	(7,101,064)
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	65,000	-	(65,000)	119,370
Issuance of Certificate of Participation	-	-	-	13,175,000
Premium on Certificate of Participation	-	-	-	190,993
Total Other Financing Sources	65,000	-	(65,000)	13,485,363
Net Change in Fund Balance	\$ (12,100,000)	(12,358,641)	\$ (258,641)	6,384,299
FUND BALANCE				
Beginning of Year		20,731,734		14,347,435
Ending of Year		\$ 8,373,093		\$ 20,731,734

INDEPENDENT SCHOOL DISTRICT NO. 720
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2015

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 79,863,076	\$ 79,863,073	\$ 3	Total Revenue	\$ 20,653	\$ 20,653	\$ -
Total Expenditures	82,539,053	82,539,054	(1)	Total Expenditures	12,379,294	12,379,294	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	68,261	68,261	-	460 Nonspendable Fund Balance	117,702	117,702	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(770,198)	(770,198)	-	413 Building Projects Funded by COP/LP	252,334	252,333	1
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	8,003,057	8,003,058	(1)
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	2,158,125	2,158,125	-	Total Revenue	\$ 13,251,389	\$ 13,251,389	\$ -
426 \$ 25 Taconite	-	-	-	Total Expenditures	69,130,949	69,130,949	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refundings	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted Fund Balance	2,937,288	2,937,288	-
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
448 Achievement and Integration Revenue	-	-	-				
449 Safe School Crime	-	-	-	08 TRUST FUND			
450 Transition for Pre-Kindergarten	-	-	-	Total Revenue	\$ 4,000	\$ 4,000	\$ -
451 QZAB and QSCB Payments	-	-	-	Total Expenditures	7,000	7,000	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
453 Unfunded Severance and Retirement Levy	-	-	-	422 Unassigned Fund Balance (Net Position)	38,019	38,020	(1)
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-	20 INTERNAL SERVICE FUND			
<i>Committed:</i>				Total Revenue	\$ -	\$ -	\$ -
418 Committed for Separation	-	-	-	Total Expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
462 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
422 Unassigned Fund Balance	6,318,335	6,318,334	1	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICE FUND				<i>Unassigned:</i>			
Total Revenue	\$ 3,927,153	\$ 3,927,152	\$ 1	422 Unassigned Fund Balance (Net Position)	-	-	-
Total Expenditures	3,899,796	3,899,797	(1)				
<i>Nonspendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Nonspendable Fund Balance	33,832	33,832	-	Total Revenue	\$ 93,721	\$ 93,722	\$ (1)
<i>Restricted/Reserved:</i>				Total Expenditures	335,300	335,300	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance (Net Position)	4,829,400	4,829,401	(1)
464 Restricted Fund Balance	416,604	416,601	3				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
04 COMMUNITY SERVICE FUND				<i>Nonspendable:</i>			
Total Revenue	\$ 1,915,937	\$ 1,915,937	\$ -	460 Nonspendable Fund Balance	-	-	-
Total Expenditures	1,976,362	1,976,362	-	<i>Restricted:</i>			
<i>Nonspendable:</i>				425 Bond Refundings	-	-	-
460 Nonspendable Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	(75,851)	(75,851)	-				
432 ECFE	15,277	15,277	-				
444 School Readiness	73,255	73,255	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 720

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

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Program	10.555	\$ 215,264
School Breakfast	10.553	231,793
Type A Lunch	10.555	1,312,247
Special Milk	10.556	604
Summer Food Service	10.559	1,355
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>1,761,263</u>
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	489,744
Title III, Part A - Language Enhancement	84.365	70,268
Title II, Part A - Improving Teacher Quality	84.367	61,195
Special Education Cluster:		
Special Education	84.027	1,063,241
Disabled Early Education	84.173	41,940
IDEAS Part B Section 611 Discretionary Continuous Improvement	84.027	12,560
Total Special Education Cluster		<u>1,117,741</u>
Special Education - Infants and Toddlers	84.181	47,770
Through Carver-Scott Educational Cooperative:		
Carl Perkins	84.048A	20,790
Direct:		
Indian Education - Grants to Local Educational Agencies	84.060	32,864
Total U.S Department of Education		<u>1,840,372</u>
Total Federal Expenditures		<u>\$ 3,601,635</u>

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

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INDEPENDENT SCHOOL DISTRICT NO. 720

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

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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



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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 720
Shakopee, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ending June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 19, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 2009-001 to be a material weakness.

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A significant deficiency is a deficiency or 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 2010-001 to be a significant deficiency.

Compliance and Other Matters

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

District's Response to the Findings

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

Purpose of this Report

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

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015



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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 720
Shakopee, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 720, Shakopee, Minnesota with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and 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 compliance of Independent School District No. 720.

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Opinion on Each Major Federal Program

In our opinion, Independent School District No. 720 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 09-01
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 10-01
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
CFDA No.:	84.010
Name of Federal Program or Cluster:	Title I, Part A
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2009-001 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:

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

Condition:

During the year ended June 30, 2015, the District had a lack of segregation of accounting duties due to a limited number of office employees.

Administration is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Context:

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

Effect:

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

Cause:

There are a limited number of office employees.

Recommendation:

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

INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2009-001 – Lack of Segregation of Accounting Duties (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding

The following controls were added December 1, 2010 in the Business Office. The Accounts Payable Clerk still verifies a sample of information for each payroll. She will verify the information to the pay check document and initial the forms she reviews. The Director of Finance will continue to review gross and net pay reports for reasonableness compared to prior pay periods.

The Payroll Clerk will review the work of the Accounts Payable Clerk. She will take a sample of 10 items per check run and verify the documentation to the final check that will be mailed. The Director of Finance will continue to review total reports for reasonableness compared to prior months and prior years.

In addition to the controls added in December 2010, the Director of Finance will continue to review the operational reports of the departments for reasonableness. The Director of Finance will also continue to discuss with the departments, colleagues and auditors to determine best practices with the limited staff available and implement changes that are economically feasible.

3. Official Responsible for Ensuring CAP

Mike Burlager, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The CAP will be monitored continually by the Director of Finance.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this CAP.

INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2010-001 – Preparation of Financial Statements and Related Note Disclosures

Criteria or Specific Requirement:

The District does not have a process and the related internal control established to provide for the preparation of the financial statements and related note disclosures.

Condition:

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Context:

This finding impacts the District's ability to internally prepare the financial statements and related note disclosures.

Effect:

This could result in a misstatement to the financial statements and incomplete financial disclosures in the financial statements that would not be prevented, or detected and corrected as a result of the District's current internal controls.

Cause:

There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements by the District.

Recommendation:

Continue to request assistance from a third party to draft the financial statements and accompanying Notes to the Financial Statements and thoroughly review these financial statements after they have been prepared so the District can take responsibility for them.

INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

**Audit Finding 2010-001 – Preparation of Financial Statements and Related Note Disclosures
(Continued)**

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District intends to continue contracting this activity to an outside firm and will continue to review and take responsibility for the financial statements.
3. Official Responsible for Ensuring CAP
Mike Burlager, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2016.
5. Plan to Monitor Completion of CAP
Mike Burlager, Director of Finance, will notify and discuss this CAP with the Board Finance Committee.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None



REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 720
Shakopee, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, and have issued our report thereon dated November 19, 2015.

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

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

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

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

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INDEPENDENT SCHOOL DISTRICT NO. 720
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION
PLANS ON LEGAL COMPLIANCE
June 30, 2015

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Timely Submission of Report of Outstanding Indebtedness to the County

Minnesota Statutes 471.70 states the principal accounting officer of the district must report their outstanding bonded indebtedness and the purpose for the issue of the debt as of December 31 by February 1 of the following year to the County Auditor in each county in which the district resides.

During our 2014 audit, we noted the District did not report the bonded indebtedness as of December 31, 2013 to Scott County by February 1, 2014.

CORRECTIVE ACTION TAKEN

During our 2015 audit, we noted the District did report the bonded indebtedness as of December 31, 2014 to Scott County prior to February 1, 2015.

**INDEPENDENT SCHOOL DISTRICT NO. 720
Shakopee, Minnesota**

**COMMUNICATIONS LETTER
OF THE STUDENT ACTIVITY ACCOUNTS**

Year Ended June 30, 2015



 **bergankDV**
CPAS | ADVISORS

INDEPENDENT SCHOOL DISTRICT NO. 720

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PRELIMINARY



**REPORT ON MATTERS IDENTIFIED AS A RESULT OF
THE AUDIT OF THE FINANCIAL STATEMENTS**

School Board, Advisors, Students and Management
Independent School District No. 720
Shakopee, Minnesota

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's student activity account's internal control over financial reporting (internal control) as a basis for designing auditing 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 student activity account's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's student activity account's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's student activity account's financial statements will not be prevented, or detected and corrected on a timely basis. The material weakness identified is stated within this letter.

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.

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education (MDE), provides uniform financial accounting and reporting standards for student activities. We performed auditing procedures to test compliance with the provisions of this Manual.

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This communication is intended solely for the information and use of management, the School Board and others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

MATERIAL WEAKNESSES

June 30, 2015

INADEQUATE DESIGN OF INTERNAL CONTROL

The District's student activity accounts have not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District's student activity accounts do not have adequate segregation of accounting duties due to a limited number of office employees. Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to achieve. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

TIMELINESS OF CASH BOX ACTIVITY

It was noted during our test of receipts that it appears the District takes cash out of the bank for the use of cash boxes for an event well before the date of the event. It also appears that the District does not deposit that money back into the bank in a timely manner.

During our testing, we noted a dance was held in November 2014, however, cash was taken out of the bank on October 22, 2014. This money was not redeposited until December 1, 2014. There was another dance on April 17, 2015. Cash was taken out of the bank for the cash box for this event on March 24, 2015. We also noted that it appears there was cash taken out of the bank on October 7, 2014 for a cash box for a book sale, but was not redeposited with the bank until December 1, 2014.

We recommend the District ensure money is taken out of the bank only a day or two in advance of an event and redeposit it in a timely manner after the event.

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of the student activity accounts of Independent School District No. 720, Shakopee, Minnesota for the year ended June 30, 2015, and have issued our report dated November 19, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Since the District's student activity accounts have not established procedures to provide assurance that cash collections are not recorded in the accounting records, it is not practical for us to extend our audit of such cash collections beyond the amounts recorded.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District's student activity accounts and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District's student activity accounts or to acts by management or employees acting on behalf of the District's student activity accounts.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the District's student activity accounts during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

The financial statements disclosures are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

INDEPENDENT SCHOOL DISTRICT NO. 720

REQUIRED COMMUNICATION

June 30, 2015

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's student activity account's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**INDEPENDENT SCHOOL DISTRICT NO. 720
Shakopee, Minnesota**

**AUDITED FINANCIAL STATEMENTS OF
THE STUDENT ACTIVITY ACCOUNTS**

For the Year Ended June 30, 2015



 **berganKDV**
CPAS | ADVISORS

INDEPENDENT SCHOOL DISTRICT NO. 720

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PRELIMINARY



INDEPENDENT AUDITOR'S REPORT

BergankDV, Ltd.

To the School Board,
Advisors and Students
Independent School District No. 720
Shakopee, Minnesota

Report on the Financial Statements

We have audited the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 720, Shakopee, Minnesota, for the year ended June 30, 2015, and the related Note to the Student Activity Accounts 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 financial reporting provisions of the Minnesota Department of Education. Management is also responsible for 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 an opinion 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 of material misstatement.

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

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

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Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in the Note to the Financial Statements, the financial statements are prepared by the District on the basis of the financial reporting provisions of the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the Minnesota Department of Education.

The effects on the financial statements of the variances between the regulatory basis of accounting described in the Note to the Financial Statements and accounting principles generally accepted in the United State of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the financial statements referred to above do 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 the District as of June 30, 2015, or changes in the financial position for the year then ended.

Basis for Qualified Opinion – Regulatory Basis of Accounting

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded.

Qualified Opinion – Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion – Regulatory Basis of Accounting” paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances of Independent School District No. 720, Shakopee, Minnesota, student activity accounts for the year ended June 30, 2015, and the cash transactions for the year then ended in accordance with the financial reporting provisions of the Minnesota Department of Education as described in the Note to the Financial Statements.

BerganKDV, Ltd.
Minneapolis, Minnesota
November 19, 2015

INDEPENDENT SCHOOL DISTRICT NO. 720

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
Year Ended June 30, 2015**

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance June 30, 2015</u>
Senior High	\$ 166,213	\$ 440,931	\$ 483,151	\$ 123,993
West Junior High	2,574	2,252	2,410	2,416
East Junior High	5,667	3,002	2,899	5,770
Pearson 6th Grade Center	<u>3,313</u>	<u>2</u>	<u>-</u>	<u>3,315</u>
 Total	 <u>\$ 177,767</u>	 <u>\$ 446,187</u>	 <u>\$ 488,460</u>	 <u>\$ 135,494</u>

The Note to the Student Activity Accounts Financial Statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 720

STATEMENT OF RECEIPTS AND DISBURSEMENTS
 SENIOR HIGH
 Year Ended June 30, 2015

Description	Balance June 30, 2014	Receipts and Transfers In	Disbursements and Transfers Out	Balance June 30, 2015
Art	\$ 407	\$ -	\$ -	\$ 407
Band Tour	1,579	389	220	1,748
Baseball	11,438	13,956	19,913	5,481
Boys Basketball	4,675	9,128	7,824	5,979
Cheerleading	3,030	8,633	10,344	1,319
Choir Tour	54,238	158,023	211,314	947
Chorus	2,469	3,509	4,019	1,959
Concessions	-	22,821	22,821	-
Cross Country	3,601	1,838	1,801	3,638
Dance Team	1,771	1,974	2,330	1,415
FLA	1,210	1,470	944	1,736
Football	383	14,980	15,363	-
German Exchange	2,335	8,019	6,388	3,966
Golf - Girls	945	-	149	796
Hockey - Boys	493	-	-	493
HOSA	2,196	881	422	2,655
Industrial Tech Group	1,112	7,926	497	8,541
Key Club	2	-	-	2
Lacrosse - Boys	646	-	646	-
Lacrosse - Girls	686	280	920	46
LEAD	1,071	3,333	3,713	691
Listen to Our Voices Alliance	47	481	-	528
Math League	431	-	-	431
NHS	545	1,266	1,580	231
Prom Committee	14,075	23,110	27,966	9,219
Robotics	-	26,285	19,235	7,050
Saber Shop	5,069	11,487	11,584	4,972
Soccer - Boys	3,505	1,669	4,427	747
Soccer - Girls	2,887	2,285	1,761	3,411
Softball	3,467	8,606	11,256	817
Spanish Trip	3,632	4,252	3,949	3,935
Special Education Community	2,927	1,740	589	4,078
Speech	1,575	3,040	2,181	2,434
Student Council	15,506	36,205	28,331	23,380
Sun Ecology	330	-	-	330
Swim/Dive - Boys	2,483	11,842	12,707	1,618
Swim/Dive - Girls	717	15,181	15,488	410
Tennis - Boys	1,629	941	2,048	522
Tennis - Girls	1,740	280	-	2,020
Theatre Group	2,137	10,538	10,099	2,576
Track	5,091	22,810	19,387	8,514
Wrestling	4,131	1,503	768	4,866
Youth in Government	2	250	167	85
Total	\$ 166,213	\$ 440,931	\$ 483,151	\$ 123,993
Analysis of Balance:				
Checking				\$ 121,298
Senior High Choir Tour				947
Senior High Band Tour				1,748
Total				\$ 123,993

The Note to the Student Activity Accounts Financial Statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 720

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
WEST JUNIOR HIGH
Year Ended June 30, 2015**

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance June 30, 2015</u>
National Jr. Honor Society	\$ 386	\$ -	\$ -	\$ 386
Student Council	<u>2,188</u>	<u>2,252</u>	<u>2,410</u>	<u>2,030</u>
 Total	 <u>\$ 2,574</u>	 <u>\$ 2,252</u>	 <u>\$ 2,410</u>	 <u>\$ 2,416</u>
Analysis of Balance:				
Checking				<u>\$ 2,416</u>

The Note to the Student Activity Accounts Financial Statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 720

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
EAST JUNIOR HIGH
Year Ended June 30, 2015**

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance June 30, 2015</u>
East Junior High Student Council	\$ 5,667	\$ 3,002	\$ 2,899	\$ 5,770
Total	<u>\$ 5,667</u>	<u>\$ 3,002</u>	<u>\$ 2,899</u>	<u>\$ 5,770</u>
Analysis of Balance: Checking				<u>\$ 5,770</u>

The Note to the Student Activity Accounts Financial Statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 720

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
PEARSON 6th GRADE CENTER
Year Ended June 30, 2015**

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance June 30, 2015</u>
Pearson Student Council	\$ 3,313	\$ 2	\$ -	\$ 3,315
Total	<u>\$ 3,313</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 3,315</u>
Analysis of Balance: Checking				<u>\$ 3,315</u>

The Note to the Student Activity Accounts Financial Statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 720

**NOTE TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
June 30, 2015**

Student activity account 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 a regulatory basis of accounting prescribed by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

PRELIMINARY



**REPORT ON COMPLIANCE WITH THE
MANUAL FOR ACTIVITY FUND ACCOUNTING**

INDEPENDENT AUDITOR'S REPORT

To the School Board,
Advisors and Students
Independent School District No. 720
Shakopee, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 720, Shakopee, Minnesota, for the year ended June 30, 2015, and the related Note to the Financial Statements and have issued our report thereon dated November 19, 2015. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

The *Manual for Activity Fund 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 Activity Fund Accounting*, except as described in the Schedule of Findings and Corrective Action Plans on Compliance with the *Manual for Activity Fund Accounting*. 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 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.

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Minneapolis, Minnesota
November 19, 2015

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INDEPENDENT SCHOOL DISTRICT NO. 720

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON
COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND ACCOUNTING*
June 30, 2015

CURRENT AND PRIOR YEAR FINDINGS:

Timely Deposits

According to the *Manual for Activity Fund Accounting*, receipts should be deposited daily and student activity money should not be left in a school over the weekend.

During our audit, we discovered timely deposits were not being made.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review the timely deposit of funds with secondary buildings. The District will review the process during its review of banking services. The District will provide review on the *Manual for Activity Fund Accounting* to ensure advisors are aware of making timely deposits.
3. Official Responsible for Ensuring CAP
Mike Burlager, Director of Finance, is responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2016.
5. Plan to Monitor Completion of CAP
Dr. Rod Thompson, Superintendent, will be monitoring this CAP.

INDEPENDENT SCHOOL DISTRICT NO. 720

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON
COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND ACCOUNTING*
June 30, 2015

CURRENT AND PRIOR YEAR FINDINGS:

Ensure Activity Purpose Forms and Officer Listings are Completed Annually

The *Manual for Activity Fund Accounting* requires an Activity Purpose Form exist for each activity within the fund. The Form needs to include the name of the advisor; acknowledgement of the receipt of a *Manual for Activity Fund Accounting* and acknowledgement of responsibility for assuring proper procedures are followed. These Forms must be completed, signed by the advisor and principal and placed on file at the district office.

During our audit it was also noted that multiple Activity Purpose Forms received from the Senior High, West Junior High and East Junior High were not fully completed. It was also noted several of the completed Activity Purpose Forms lacked a plan for funds upon the termination of the activity.

In addition, the *Manual for Activity Fund Accounting* requests each class, club or organization submit a list of officers to the Business Office. These individuals may be designated to assist in decision making about the account.

Updated officer listings denoting student positions were not submitted for several Senior High, West Junior High, East Junior High and Pearson 6th Grade Center student activities.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will review the process with the secondary buildings and have forms completed in a timely manner. The forms will be updated annually for advisor and student representative changes. The administration will ensure each activity submits a fully completed form.
3. Official Responsible for Ensuring CAP
Mike Burlager, Director of Finance, is responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2016.
5. Plan to Monitor Completion of CAP
Dr. Rod Thompson, Superintendent, will be monitoring this CAP.

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON
COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND ACCOUNTING*
June 30, 2015**

PRIOR YEAR FINDINGS:

Discontinue Labor Payments from Activity Accounts

According to the *Manual for Activity Fund Accounting*, at no time and under no circumstances are labor payments made by cash or check from a student activity account.

During our 2014 audit, we noted various labor payments from the Senior High and West Junior High.

CORRECTIVE ACTION TAKEN:

We did not note any labor payments being made out of any of the activities in our test population.

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 720

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND ACCOUNTING* June 30, 2015

PRIOR YEAR FINDINGS:

Review Activity Accounts for Propriety

The *Manual for Activity Fund Accounting* states that a student activity fund contains dollars which are owned, operated and managed by organizations, clubs or associations within the student body under the guidance and direction of faculty or staff members for educational, recreational, or cultural purposes. Additionally, student participation must be supported by minutes, student signatures on purchase orders, requisitions and check requests. All expenses should be approved by a student treasurer in addition to obtaining the other necessary approvals. The *Manual for Activity Fund Accounting* also states that each class, club or organization should submit a list of officers to the school district office, since one or more of these individuals may be designated to assist in decision-making about the account.

During our 2014 audit, it was noted for the Senior High Band activities that there were no check requests being made and that all disbursements were only approved by the advisor, principal and Director of Finance. It was further noted that while officer listings were submitted, they did not designate positions for students.

CORRECTIVE ACTION TAKEN:

There was one disbursement out of the Band Tour account during fiscal year 2015 and that disbursement properly included a check request.

PRIOR YEAR FINDINGS:

Student Activity Disbursements

The *Manual for Activity Fund Accounting* requires a check request be signed by the activity advisor and a student representing the activity. The *Manual for Activity Fund Accounting* also requires the following documentation for all disbursements:

- Name of Organization
- Explanation of Disbursement
- Name of Vendor
- Date Requested
- Date Needed
- Account Code
- Invoice
- Signed by the Activity Advisor

During testing in the 2014 audit, we noted that the Band Tour accounts did not have Check Request Forms completed for any of the disbursements tested.

CORRECTIVE ACTION TAKEN:

There was one disbursement out of the Band Tour account during fiscal year 2015. That disbursement properly included a check request form.

INDEPENDENT SCHOOL DISTRICT NO. 720

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON
COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND ACCOUNTING*
June 30, 2015**

PRIOR YEAR FINDINGS:

Vending Machine Sales

According to the *Manual for Activity Fund Accounting*, revenues from vending machine sales cannot be turned over to any individual or school organization not under control of the school board, such as a student activity club, as the school board cannot grant gifts or otherwise subsidize operations over which it has no direct budgeting, expenditures or accounting responsibilities.

During our 2014 audit, it was noted the student activity accounts at West Junior High received proceeds from vending machines.

CORRECTIVE ACTION PLAN TAKEN:

During our 2015 audit, we did not note any student activity groups receiving money from vending machine sales. Tyler notified the advisors of this issue at West Junior High and they have stopped receiving money for vending machine sales.

PRIOR YEAR FINDINGS:

Receipting Process

The *Manual for Activity Fund Accounting* states a Receipt Request Form should contain all of the following:

- Name of Organization
- Name of Advisor
- Account Code
- Source of Receipts
- Amount of Collection
- Date

It was noted in our 2014 audit that there were no receipts available for two of five items tested for West Junior High.

CORRECTIVE ACTION TAKEN:

It was noted that all receipts in our test population were available in the current year. All receipts had the proper receipt request forms filled out with all the proper documentation.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This section of Independent School District No. 720's (the "District") annual financial report presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report,
- Management's Discussion and Analysis,
- Basic financial statements, including the government-wide financial statements, fund financial statements and the Notes to the Financial Statements,
- Required supplementary information, and
- Combining and individual fund statements and schedules.

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

Government-Wide Statements

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

For Minnesota schools, funds are established in the Uniform Financial Accounting and Reporting System (UFARS) in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following two kinds of funds:

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

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

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

	2015	2014
ASSETS		
Current and Other Assets	\$ 61,307,923	\$ 109,349,738
Capital Assets, Net of Depreciation	145,274,734	139,032,368
Total Assets	\$ 206,582,657	\$ 248,382,106
LIABILITIES AND DEFERRED INFLOWS		
Current and Other Liabilities	\$ 12,302,199	\$ 13,116,209
Long-Term Liabilities, Including Due Within One Year	177,210,613	181,998,817
Deferred Inflows of Resources	36,023,543	20,914,411
Total Liabilities and Deferred Inflows	\$ 225,536,355	\$ 216,029,437
NET POSITION		
Net Investment in Capital Assets	\$ 23,041,568	\$ 21,840,189
Restricted	3,150,431	2,411,568
Unrestricted	(45,145,697)	8,100,912
Total Net Position	\$ (18,953,698)	\$ 32,352,669

The District's financial position is the product of many factors. For example, the determination of the District's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts.

The financial position of the District did not improve this year as measured by total net position. For the year ended June 30, 2015, total net position decreased by \$ 51,306,367 to a level of \$ (18,953,698). The decrease reflects a \$ 51,004,185 adjustment to the beginning net position on the Statement of Activities for the beginning net pension liability. This adjustment is a result of the implementation of GASB Statement No. 68 and GASB Statement No. 71. The district's current year operations resulted in a net position decrease of \$ 302,182, or .1%.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

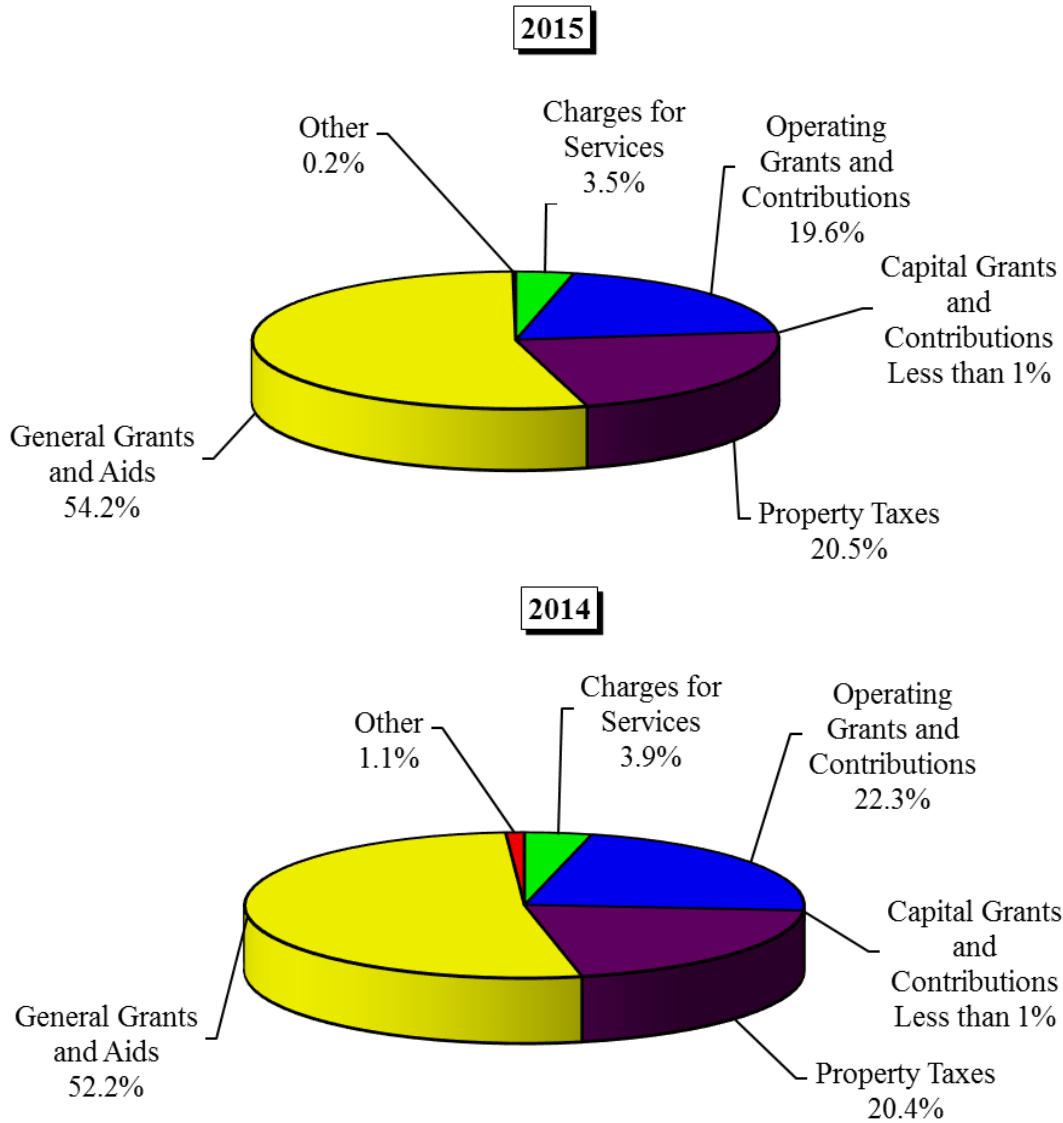
	2015	2014
REVENUES		
Program Revenues:		
Charges for Services	3,512,115	\$ 3,524,763
Operating Grants and Contributions	19,373,405	20,373,579
Capital Grants and Contributions	-	38,845
General Revenues:		
Property Taxes	22,257,728	18,638,425
General Grants and Aids	53,626,026	47,608,165
Other	165,989	976,123
Total Revenues	98,935,263	91,159,900
 EXPENSES		
Administration	5,547,166	4,623,140
District Support Services	1,912,672	1,471,090
Elementary and Secondary Regular Instruction	42,847,228	40,000,664
Vocational Education Instruction	703,295	725,118
Special Education Instruction	15,515,994	15,085,785
Instructional Support Services	6,047,476	4,921,635
Pupil Support Services	6,905,267	6,213,364
Sites and Buildings	7,807,706	6,880,602
Fiscal and Other Fixed Cost Programs	215,914	181,473
Food Service	3,794,772	3,470,807
Community Service	2,056,634	1,838,544
Depreciation not Allocated to Other Functions	628,829	517,536
Interest and Fiscal Charges	5,254,492	7,146,210
Total Expenses	99,237,445	93,075,968
 Change in Net Position	\$ (302,182)	\$ (1,916,068)

The table summarizes all of the governmental activities of the District and is presented on the accrual basis of accounting. Revenues are allocated between those directly related to specific programs and those that are general revenues. Depreciation expense is included in expenses, but capital asset purchase costs, debt proceeds and the repayment of debt principal are excluded.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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



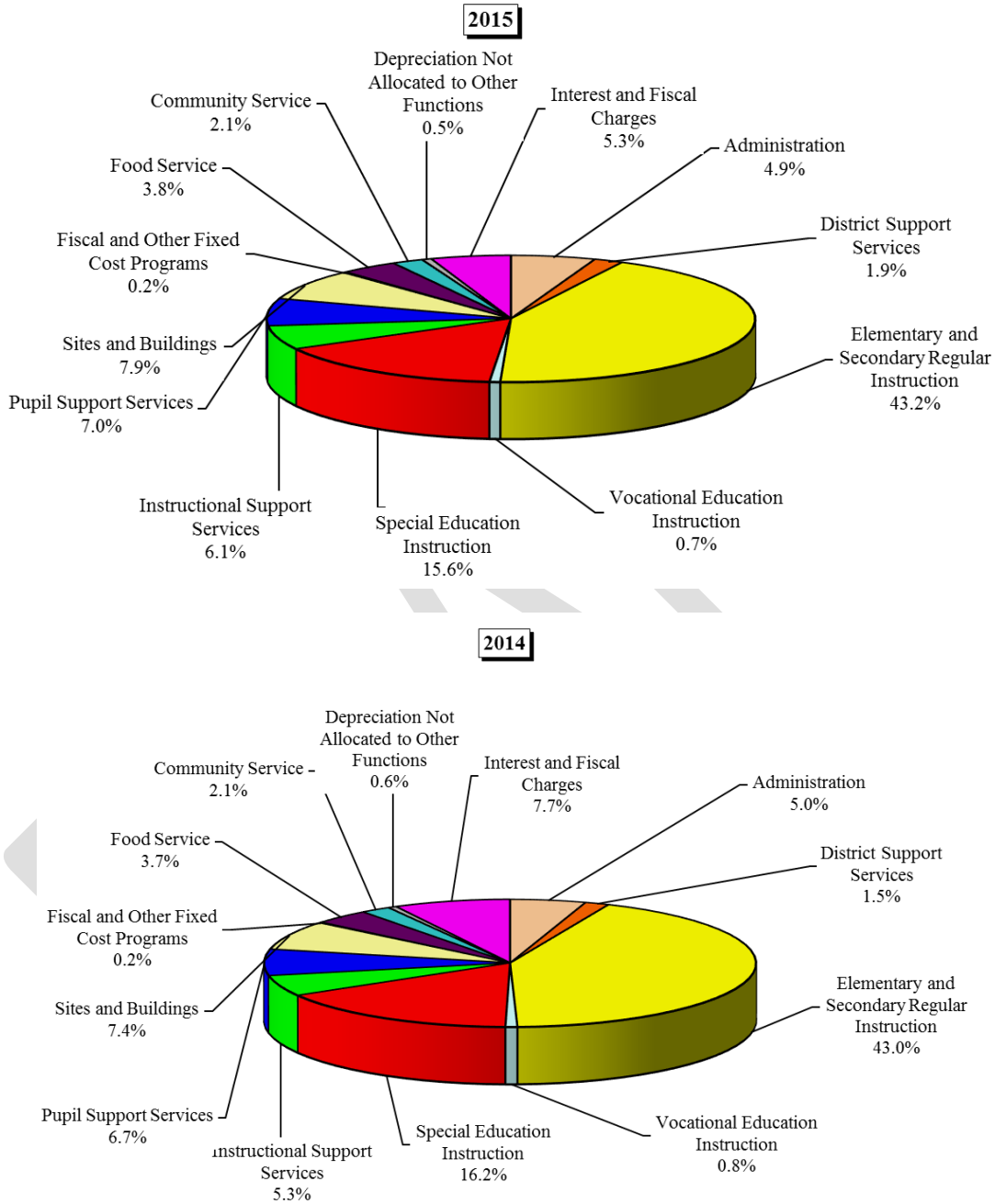
The largest share of the District's revenue is received from the state, including the General Education Aid formula and most of the operating grants. Consequently, the District's funding depends significantly on the state's financial fluctuations.

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

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure B – Expenses for Fiscal Years 2015 and 2014



The District’s expenses are predominately related to educating students. The majority of the District’s expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, vocational education instruction, special education instruction and instructional support services.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances in each of the District's governmental funds:

Table 3
Governmental Fund Balances
As of June 30, 2015 and 2014

	2015	2014	Increase (Decrease)
GOVERNMENTAL FUNDS			
Major Funds:			
General	\$ 7,774,523	\$ 10,436,920	\$ (2,662,397)
Capital Projects – Building			
Construction	8,373,093	20,731,734	(12,358,641)
Debt Service	2,937,288	45,763,302	(42,826,014)
Nonmajor Funds:			
Special Revenue Funds:			
Food Service	450,436	423,079	27,357
Community Service	12,681	73,106	(60,425)
Total Governmental Funds	\$ 19,548,021	\$ 77,428,141	\$ 57,880,120

ANALYSIS OF THE GENERAL FUND

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District may change the budget for known significant changes in circumstances, such as updated enrollment estimates, legislation changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, health insurance premium increases, special education tuition changes or utility rate changes. During the year, the District reviewed operating results, but did not amend the original budget.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2015

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the operating results of the General Fund:

Table 4
General Fund Operating Results

	2015 Actual	Over (Under) Final Budget		Over (Under) Prior Year	
		Amount	Percent	Amount	Percent
Revenue and Other Financing Sources	\$ 79,863,076	\$ (696,924)	(0.9%)	\$ (1,107,265)	(1.5%)
Expenditures	<u>82,539,053</u>	2,479,053	3.0%	2,118,255	2.9%
Net Change in Fund Balances	<u>\$ (2,675,977)</u>				

Actual expenditures were over budget largely due to the staff changes that required the Board to add staff. Expenditures were also higher mainly from other planned staff increases over the previous fiscal year.

The growth in revenues over the prior year can be attributed to the District serving more students in fiscal year 2015 and an increase to the General Education formula by the State of Minnesota. There was also a budgeted increase in federal revenue sources. The number of students fell short of projects for the first year of all-day kindergarten and we had a reduction in students from fall to spring for the third year in a row

ANALYSIS OF REMAINING MAJOR FUNDS

The District’s activity in the Capital Projects – Building Construction Fund is related to projects financed with general obligation (G.O.) building bonds to meet the needs of the District’s growing student population and Certificates of Participation to meet the need to add all day Kindergarten for fiscal year 2015. As planned in the budget, expenditures exceeded revenues in fiscal year 2015 for the (G.O) portion of the fund by \$ 12.38 million. The COP projects were issued in December 2013 and construction completed in the summer of 2014 so the additional kindergarten space was available at the start of the school year in September of 2014.

Activity of the Debt Service Fund is largely controlled in accordance with each outstanding debt issue’s financing plan. The District retired \$ 7,620,000 of bond principal during fiscal year 2014 according to payment schedules. The Debt Service Fund has approximately \$ 2.9 million of year-end fund balance, excluding the amount available in the escrow account as described below. The current fund balance is available to finance future debt service obligations. The District also refinanced the 2005 and 2006 G.O. Bonds with a crossover refunding bond. An escrow account of \$ 42.7 million was established to pay the 2005 and 2006 G.O. Bonds when called.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 5 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2015 and 2014:

Table 5
Capital Assets

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Land	\$ 13,987,802	\$ 13,987,802	\$ -
Construction in Progress	4,889,390	4,593,313	296,077
Capital Assets, Net of Accumulated Depreciation:			
Site Improvements	3,055,726	3,120,573	(64,847)
Buildings	115,522,785	111,192,807	4,329,978
Furniture and Equipment	7,819,031	6,137,873	1,681,158
Total	<u>\$ 145,274,734</u>	<u>\$ 139,032,368</u>	<u>\$ 6,242,366</u>
Accumulated Depreciation	<u>\$ (58,132,200)</u>	<u>\$ (52,949,654)</u>	<u>\$ (5,182,546)</u>
Depreciation Expense	<u>\$ 5,202,016</u>	<u>\$ 4,937,662</u>	<u>\$ 264,354</u>

Capital assets are increasing to meet the needs of the District's anticipated continued growth.

INDEPENDENT SCHOOL DISTRICT NO. 720
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Long-Term Liabilities

Table 6 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 6
Outstanding Long-Term Liabilities

	2015	2014	Increase (Decrease)
G.O. Bonds Payable, Net of Premium	\$ 117,119,964	\$ 168,332,626	\$ (51,212,662)
Certificates of Participation Payable, Net of Premium	12,740,914	13,360,967	(620,053)
Compensated Absences Payable	432,665	305,224	127,441
Total	\$ 130,293,543	\$ 181,998,817	\$ (51,705,274)

Scheduled payments on outstanding obligations as discussed earlier and the refunding of the 2004A Bond resulted in a decrease of the District's bonds payable as presented in the table above. The issuance of a new Certificate of Participation payable to finance construction related to kindergarten additions resulted in the increase in the liability.

The state limits the amount of G.O. debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. (See Table 7.)

Table 7
Limitations on Debt

District's Market Value	\$ 4,150,908,244
Limit Rate	15.0%
Legal Debt Limit	\$ 622,636,237

Additional details of the District's capital assets and long-term debt activity can be found in the Notes to the Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 720

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the State of Minnesota for educational resources. The basic general education formula amount for all Minnesota school districts increased 1.5% to \$ 5,831 in 2015, the fourth increase since fiscal year 2009. An improving economy has reduced some of the challenges in funding education for Minnesota schools in recent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 720, 1200 Shakopee Town Square, Shakopee, Minnesota 55379.

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Curriculum Framework for Areas of Interests/Academies

History

In August of 2014, the School Board approved the Secondary Design Team report and recommendations to improve our secondary academic programs. One of the key initiatives was to design a plan to organize elective courses (grade 6-12) based on Areas of Interest: Arts & Communication, Business & Entrepreneurship, Engineering & Manufacturing, Health Sciences, Human Services, and Science & Technology. Last year this work began by forming six Area of Interest Articulation teams. These teams included teacher representation from multiple content areas to determine programming and structure for these areas. The team defined great implementation as:

Vision Statement:

Grade 6-12 elective courses will allow students to explore a variety of career and college preparatory experiences and dive deeply into an Area of Interest. All programs of study will help students develop the Shakopee 6 C's. (Character, Collaboration, Communication, Creativity, Critical Thinking, & Cultural Competence)

Great Implementation Looks Like:

- Vertical alignment of courses in grades 6-12 and/or E-12 (when possible) for each Area of Interest.
- A progression of courses that increase in depth and complexity and include “mini” capstone experiences to prepare for 11th and 12 grade capstone experiences, including an immersion option (CAPS) for students.
- 11th and 12th grade electives will include value added programming, such as dual credit, internship/apprenticeship, capstone, certificate or degree programs, etc.
- Courses will focus on relevant professional or industry standards and involve community, business, and post-secondary partnerships to ensure real world application.
- Course alignment will offer flexibility to ensure student options for exploration and the ability to go deeper into a specific area of interest or program of study.

The passage of the referendum allowed this curriculum framework to become the foundation for the “Academies of Shakopee”.

The Articulation Process

The Area of Interest Articulation teams have drafted the curriculum framework for each area. Last year these teams proposed changes to our middle school elective program. Changes were made to the middle school master schedule to allow more student choice of electives at grades 7-9 and new gateway and elective courses were proposed. This year new or revised courses will be proposed at the High School introductory level targeted at 9th and 10th graders. Below is a multiple year plan for these Articulation teams.

2014-15	2015-16	2016-17	2017-18	2018-19
<ul style="list-style-type: none"> Defined the purpose of each Area of Interest and programs of study Proposed new MS gateway and elective courses 	<ul style="list-style-type: none"> Implemented MS courses Draft of HS framework Proposed HS introductory courses 	<ul style="list-style-type: none"> Implement new Introductory courses Revise draft of HS framework Propose intermediate courses 	<ul style="list-style-type: none"> Implement new intermediate courses Revise draft of HS framework Propose additional intermediate or advanced courses 	<ul style="list-style-type: none"> Implement new intermediate/advanced courses Finalize draft of HS framework propose additional intermediate and advanced courses as needed

Terms Defined

Area of Interest – Broad area of interests commonly used by universities and the Minnesota Department of Education as career clusters.

Programs of Study – a sequence of courses that increase in depth and complexity in a more focused program within an Area of Interest.

Gateway Course – a quarter length course which introduces each Area of Interest and is a requirement for 6th and 7th grade students at the middle level.

Introductory Course – the first course in a sequence of courses within a program of study. Typically, taken by 9th or 10th graders.

Intermediate Course – the second course in a sequence of courses within a program of study. Typically taken by 9th to 11th graders.

Advanced Course – the third course in a sequence of courses within a program of study. These courses must include a value added programming. Typically, taken by 11th and 12th graders.

Global Elective – a course that is not embedded within an academy.

Curriculum Frameworks – Key Assumptions

The curriculum frameworks for all six Areas of Interest are listed below. Please note the color legend.

Orange = Proposed or revised courses **Black = Existing courses with little or no modification needed** **Blue = Brainstorm/Potential Electives**

Assumptions include:

- Proposed courses are still being reviewed and subject to change.
- These frameworks are preliminary drafts and subject to change or revision over the next few years.
- Brainstorm/Potential Electives are conceptual not course titles. There are too many for our current student population and we will need to reduce or eliminate other courses to ensure “sustainable” course options for students.
- Programs of Study within Areas of Interest will be subject to change and revision over time. Areas of Interest are the names of our six “Academies of Shakopee”.

Arts and Communication

Area of Interest Gateway: Heroes (Grade 6)

Middle School Electives (Grade 7,8):

Band 6,7,8, Choir 6,7,8, Music Production, Digital Art, Draw It / Paint It / Print It, Drop a Beat, House of Style, **Digital Storytelling**, Sculpt It, German/Spanish 1,2, **Spanish for Spanish Speakers**.

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Program of Study	Intro (Grade 9-10)	Intermediate (Grade 9-11)	Advanced (Grade 11-12)
Musical Arts	<ul style="list-style-type: none"> ● 9th Grade Band ● 9th Grade Choir ● Rock Band Essentials I 	<ul style="list-style-type: none"> ● Symphonic Band ● Saber Choir ● Rock Band Essentials II 	<ul style="list-style-type: none"> ● Wind Ensemble ● Concert Band ● Concert Choir ● AP Music Theory ● Bel Canto ● Composition ● Senior Recitals
Theatre Arts	<ul style="list-style-type: none"> ● Theatre 	<ul style="list-style-type: none"> ● Acting I ● Acting II ● Stagecraft ● Choreography ● Writers' Workshop (rename only) ● Film Study 	<ul style="list-style-type: none"> ● Capstone course (Original Production Experience/Stage Direction) ● Filmmaking
Arts Production and Management	<ul style="list-style-type: none"> ● Arts and Production Management 	<ul style="list-style-type: none"> ● Technical Sound and Lighting Design ● Production Management ● Electronic Music Production ● Technical Studio 	<ul style="list-style-type: none"> ● Arts Board ● Arts Administration
Visual Arts	<ul style="list-style-type: none"> ● Art Foundations ● Ceramics 1 	<ul style="list-style-type: none"> ● Sculpture I ● Sculpture II ● Photo I and II ● DPP I and II ● Ceramics II ● Maker Studio 	<ul style="list-style-type: none"> ● AP Studio Art ● Studio Market
Design	<ul style="list-style-type: none"> ● Interior Design I ● Fashion Merchandising and Design ● Digital Design 1 ● Art Foundations 	<ul style="list-style-type: none"> ● Apparel Construction ● Digital Design II 	<ul style="list-style-type: none"> ● Interior Design II ● Fashion II
Mass Communications	<ul style="list-style-type: none"> ● Journalism I ● Theatre 	<ul style="list-style-type: none"> ● Journalism II ● Writers' Workshop (rename only) ● CIS Public Speaking ● Film Study ● Technical Studio ● Acting I ● Acting II 	<ul style="list-style-type: none"> ● Advanced Broadcast ● Yearbook Publisher? Publications Editor? ● Filmmaking

Business and Entrepreneurship

Area of Interest Gateway: Think Tank (Grade 7)

Middle School Electives (Grade 7,8):

Innovation Lab, Money Doesn't Grow on Trees, Teen Chef.

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Program of Study	Intro (Grade 9-10)	Intermediate (Grade 9-11)	Advanced (Grade 11-12)
Business Management	<ul style="list-style-type: none"> Business and Money Management 	<ul style="list-style-type: none"> Financial Modeling Accounting Business Management Business Technology International Business and Law 	<ul style="list-style-type: none"> CIS Economics AP Macroeconomics Retail Store Management (Saber Store - include online component) Virtual Enterprise International Microsoft Office Specialist (Concurrent w/Normandale)
Entrepreneurship	<ul style="list-style-type: none"> Introduction to Entrepreneurship - Starting Your Own Business 	<ul style="list-style-type: none"> ECommerce and Social Marketing Financial Modeling Innovation and Change Management 	<ul style="list-style-type: none"> Venture Capitalism (The Lean Launchpad) Fashion Merchandising
Finance	<ul style="list-style-type: none"> Business and Money Management 	<ul style="list-style-type: none"> Money, Banking, and Investments Financial Modeling Accounting 1 Accounting II 	<ul style="list-style-type: none"> CIS Economics AP Macroeconomics 1st Nat'l Bank of Shakopee High School
Hospitality & Entertainment (Tourism)	<ul style="list-style-type: none"> Intro to Entertainment and Tourism Baking and Pastry I Culinary Arts I 	<ul style="list-style-type: none"> Service and retail industries Culinary Arts II Baking and Pastry II 	<ul style="list-style-type: none"> Hospitality and Entertainment Career Capstone
Marketing and Sales	<ul style="list-style-type: none"> Business and Money Management 	<ul style="list-style-type: none"> Sales and Marketing ECommerce and Social Marketing Accounting 	<ul style="list-style-type: none"> Virtual Enterprise International DECA Fashion Merchandising

Engineering and Manufacturing

Area of Interest Gateway: Teen Engineer (Grade 7)

Middle School Electives (Grade 7,8):

Architecture, Design and Manufacturing, Robotics.

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Program of Study	Intro (Grade 9-10)	Intermediate (Grade 9-11)	Advanced (Grade 11-12)
Architecture, Construction, and Civil Engineering	<ul style="list-style-type: none"> Intro to Engineering Design (IED) STEM Challenges Construction 1 (10+ only) 	<ul style="list-style-type: none"> Civil Engineering & Architecture (CEA) Construction 2 Principles of Engineering (POE) 	<ul style="list-style-type: none"> Engineering Design & Development (EDD) AP Physics C Architecture (ACE)
Manufacturing, Fabrication, Chemical and Mechanical Engineering	<ul style="list-style-type: none"> Intro to Engineering Design (IED) STEM Challenges Woodworking 1 Welding 1 (10+ only) 	<ul style="list-style-type: none"> Computer Integrated Manufacturing (CIM) Woodworking 2 Welding 2 Material Science / Chemical Engineering Principles of Engineering (POE) 	<ul style="list-style-type: none"> Woodworking 3 Engineering Design & Development (EDD) Welding 3 AP Chemistry
Robotics, Automation, Mechanical and Electrical Engineering	<ul style="list-style-type: none"> Intro to Engineering Design (IED) STEM Challenges 	<ul style="list-style-type: none"> Computer Integrated Manufacturing (CIM) Electricity/Electrical Engineering Principles of Engineering (POE) 	<ul style="list-style-type: none"> Engineering Design & Development (EDD) Robotics AP Physics C
Transportation and Aerospace Engineering	<ul style="list-style-type: none"> Intro to Engineering Design (IED) Small Gas Engines (10+ only) 	<ul style="list-style-type: none"> Marine, Motorcycle and Powersports (MMP) Aerospace Engineering (ASE) Principles of Engineering (POE) 	<ul style="list-style-type: none"> Engineering Design & Development (EDD) Super Mileage Vehicle AP Physics C

Health Sciences

Area of Interest Gateway: Snack Attack (grade 7)

Middle School Electives (Grade 7,8):

Medical Detectives, 2 Fit 2 Quit, Code Red.

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Program of Study	Intro (Gr.9-10)	Intermediate (Gr.9-11)	Advanced (Gr. 11-12)
Biomedical	<ul style="list-style-type: none"> Medical Intervention 	<ul style="list-style-type: none"> Human Body Systems Forensic Science Principles of Biomedical Science Healthcare Technology 	<ul style="list-style-type: none"> Biomedical Innovation CIS Anatomy and Physiology
Health and Wellness	<ul style="list-style-type: none"> Fit for Life Nutrition & Foods 	<ul style="list-style-type: none"> Nutrition & Dietetics Community Wellness Kinesiology: Body in Motion Principles of Personal Fitness 	<ul style="list-style-type: none"> Personal Training
Exercise Science	<ul style="list-style-type: none"> Introduction to Sport Performance 	<ul style="list-style-type: none"> Performance Nutrition Kinesiology: Body in Motion Exercise Physiology and Biomechanics Lifetime Sports and Fitness 	<ul style="list-style-type: none"> Physical Therapy and Athletic Medicine
Healthcare	<ul style="list-style-type: none"> Medical Intervention Nutrition & Foods 	<ul style="list-style-type: none"> Human Body Systems Nutrition & Dietetics Veterinary/Animal Science Dentistry and Orthodontics Microbiology Therapeutics Integrative Healthcare Pharmacology Health Informatics 	<ul style="list-style-type: none"> HCC Nursing Assistant CIS Human Anatomy / Physiology

Human Services

Area of Interest Gateway: Be The Change (grade 6)

Middle School Electives (Grade 7,8):

Law and Order, Stand Up for Shakol.

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Program of Study	Intro (Grade 9-10)	Intermediate (Grade 9-11)	Advanced (Grade 11-12)
Education and Training	<ul style="list-style-type: none"> Intro to Human Development 	<ul style="list-style-type: none"> Developmental Psychology Advanced Child Development Teacher Cadet 1 	<ul style="list-style-type: none"> CIS Psych Teacher Cadet 2
Law and Legal	<ul style="list-style-type: none"> Civil Liberties and Law 	<ul style="list-style-type: none"> Applied Ethics and Law Abnormal and Social Psychology Criminal Justice 	<ul style="list-style-type: none"> CIS Law Explorer Program
Public Service and Administration	<ul style="list-style-type: none"> Public Advocacy 	<ul style="list-style-type: none"> Sociology Great Leadership Opportunities Non-profit and government services 	<ul style="list-style-type: none"> Service Systems CIS Democracy
Social and Mental Health Services	<ul style="list-style-type: none"> Family and Social Services 	<ul style="list-style-type: none"> Sociology Abnormal and Social Psychology Mental Health Systems 	<ul style="list-style-type: none"> Therapy Services CIS Psychology
International and Cultural Studies	<ul style="list-style-type: none"> International Affairs World Language 1, 2 	<ul style="list-style-type: none"> World Language 3 International politics and law Humanities Anthropology Cultural Sociology 	<ul style="list-style-type: none"> Culture/community connections Study abroad (GAPP, AFS, FLEX) - Immersion CIS World Language (Spanish/German)

Science and Technology

Area of Interest Gateway: Programming is Electric (grade 6)

Middle School Electives (Grade 7,8):

Invisible World of Science and Technology, Apps Creation.

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Program of Study	Intro (Grade 9-10)	Intermediate (Grade 9-11)	Advanced (Grade 11-12)
Applied Science and Technology	<ul style="list-style-type: none"> ● Circuits, Power, and Networking 	<ul style="list-style-type: none"> ● Renewable Energy ● Digital Electronics 	<ul style="list-style-type: none"> ● Computer Networking and Infrastructure ● Advanced Desktop Management ● Super Mileage Vehicle
Investigative Science and Mathematics	<ul style="list-style-type: none"> ● The Future of Science: Research and Exploration 	<ul style="list-style-type: none"> ● Data Informatics ● Pre-Calculus ● Research & Technical Writing ● Nature of Science and Research Ethics 	<ul style="list-style-type: none"> ● AP Stats ● AP Calculus ● AP Biology ● CIS Physics ● AP Physics C ● Advanced Research Topics ● Discrete Math & Cryptology??
Computer Science	<ul style="list-style-type: none"> ● Computer Science Engineering (PLTW) ● Circuits, Power, and Networking 	<ul style="list-style-type: none"> ● Computer Science Applications(PLTW) ● Cyber Security(PLTW) ● Artificial Intelligence(PLTW) ● Web Design and Graphical User Interfaces 	<ul style="list-style-type: none"> ● Computational Problem Solving(PLTW) - Aligned to AP Computer Science ● Advanced Desktop Management
Human and Natural Resource Management	<ul style="list-style-type: none"> ● Energy and Resource Conservation 	<ul style="list-style-type: none"> ● Renewable Energy ● Environmental Sustainability (PLTW) ● Food and Agriculture Sustainability 	<ul style="list-style-type: none"> ● Ecology & Environmental Ethics (revised to be a capstone course for the POS) ● AP Environmental Science