

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
LAKEVILLE, MINNESOTA**

YEAR ENDED JUNE 30, 2015

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**PREPARED BY THE
BUDGET AND FINANCE DEPARTMENT**

**MICHAEL BAUMANN
DIRECTOR OF BUSINESS SERVICES**

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INDEPENDENT SCHOOL DISTRICT NO.
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INDEPENDENT SCHOOL DISTRICT NO.
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INTRODUCTORY SECTION

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2015**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Michelle Volk	December 31, 2018	Chairperson
Terry Lind	December 31, 2016	Vice Chairperson
Kathy Lewis	December 31, 2018	Clerk
Bob Erickson	December 31, 2016	Treasurer
Julie Keliher	December 31, 2016	Director
Jim Skelly	December 31, 2018	Director

ADMINISTRATION

Dr. Lisa Snyder	Superintendent of Schools
Michael Baumann	Executive Director of Business Services
Tony Massaros	Executive Director of Administrative Services
Barbara Knudsen	Executive Director of Teaching and Learning
Renaë Ouillette	Executive Director of Student and Special Services
Jason Molesky	Executive Director of Technology and Data Services

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

School Board
Lakeville Area Public Schools
Independent School District No. 194
Lakeville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeville Area Public Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeville Area Public Schools as of June 30, 2015, and the respective changes in financial position the budgetary comparison for General, Food Service and Community Service funds and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2015, Lakeville Area Public Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, Lakeville Area Public Schools reported a restatement for the change in accounting principle (see Note 13).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for other postemployment benefits, TRA Schedule of the School's Proportionate Share of the Net Pension Liability, TRA Schedule of School Contributions, PERA Schedule of the School's Proportionate Share of the Net Pension Liability, and PERA Schedule of School Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 194's basic financial statements. The introductory section and the uniform financial accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

School Board
Independent School District No. 194
Lakeville Area Public Schools

The uniform financial accounting and reporting standards compliance table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 uniform financial accounting and reporting standards compliance table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, on our consideration of Independent School District No. 194's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 Independent School District 194's internal control over financial reporting and compliance.


CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 2, 2015

REQUIRED SUPPLEMENTARY INFORMATION

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

This section of Independent School District No. 194's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2015. Please read it in conjunction with the district's financial statements, which immediately follow this letter.

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

Financial Highlights

Key financial highlights for the 2014-2015 fiscal year include the following:

- The District's liabilities and deferred inflows exceeded assets and deferred outflows at June 30, 2015 by \$98,639,594 (net position).
- The District's total net position decreased by \$64,551,899 during the fiscal year ended June 30, 2015. Most of this decrease was due to a prior period restatement related to the School's required implementation of GASB Statements Nos. 68 and 71.
- At June 30, 2015, the District's governmental funds reported a combined ending fund balance of \$26,307,531, an increase of \$3,703,974 from the prior year. The increase is the net effect of a significant increase in the General Fund's fund balance and a significant decrease in the fund balance of the Capital Projects – Building Construction Fund.

Overview of the Financial Statements

The financial section of the annual report consists of four parts: Independent Auditors' Report, Required Supplementary Information which includes MD&A (this section), the basic financial statements, and supplementary information. The basic financial statements include several statements that present different views of the District:

- The ***district-wide financial statements***, including the *Statement of Net Position* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are ***fund financial statements*** that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- ***Governmental funds statements*** tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- ***Proprietary funds statements*** offer short- and long-term financial information about the activities the District operates like businesses.
- ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Government-Wide Statements

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

The two government-wide statements report the District's *net position* and how they have changed. Net position – the difference between the sum of the District's assets and deferred outflows of resources and the sum of 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 an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District may establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has three kinds of funds:

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

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

- *Proprietary Fund* – The District maintains one type of proprietary fund. The Internal Service Fund is used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its dental and health self-insurance programs. These services have been included within the governmental activities in the government-wide financial statements.
- *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 a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial and governmental fund statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was a deficit of \$98,639,594 on June 30, 2015. Most of this decrease was due to a prior period restatement related to the School's required implementation of GASB Statements Nos. 68 and 71.

A large part of the District's net position is the investment in capital assets (land, buildings and equipment) less depreciation and the related debt outstanding that was used to acquire the assets. The District uses the capital assets to provide educational services to students. These are not capital assets available for future spending. Even though the District's investment in capital assets is reported net of the related debt, the resources needed to repay this debt must be provided from other sources because the capital assets cannot be used to liquidate these liabilities.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

**Table A-1
The District's Net Position**

	Governmental Activities		Percentage Change
	2015	2014	
Current and Other Assets	\$ 73,594,939	\$ 66,725,277	10.3 %
Capital and Non-Current Assets	124,141,192	127,349,760	(2.5)
Total Assets	197,736,131	194,075,037	1.9
Deferred Outflows	15,406,642	4,642,947	231.8
Current Liabilities	25,545,329	23,698,277	7.8
Long-Term Liabilities	230,993,561	176,034,656	31.2
Total Liabilities	256,538,890	199,732,933	28.4
Deferred Inflows	55,243,477	33,072,746	67.0
Net Position:			
Net Investment in Capital Assets	(24,323,317)	(27,423,779)	(11.3)
Restricted	4,412,606	3,330,799	32.5
Unrestricted	(78,728,883)	(9,994,715)	687.7
Total Net Position	\$ (98,639,594)	\$ (34,087,695)	189.4

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Changes in Net Position

In Table A-2, Change in Net Position, operations are reported on a governmental-wide basis with no reference to funds.

**Table A-2
Change in Net Position**

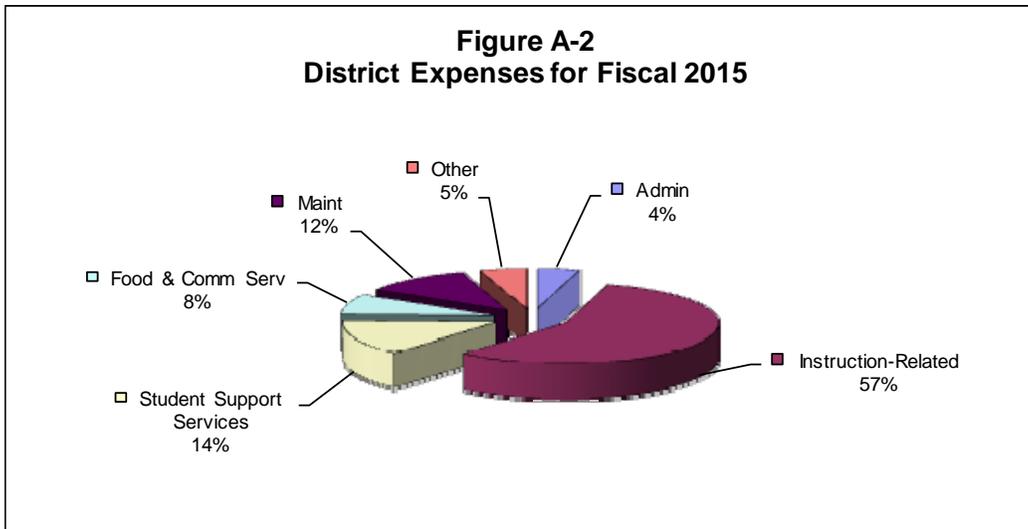
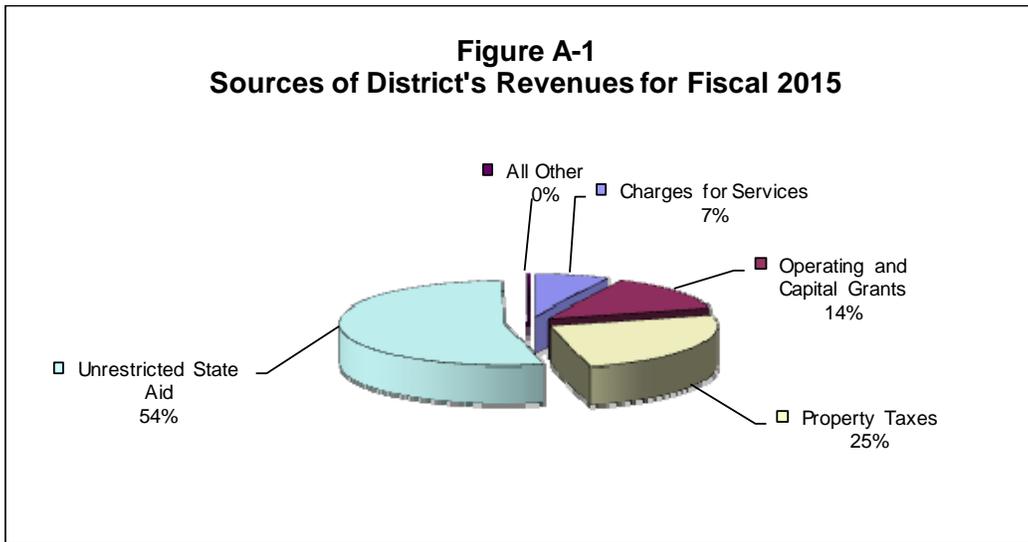
	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2015	2014	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 10,256,291	\$ 11,031,578	(7.0)%
Operating Grants and Contributions	16,762,577	15,603,450	7.4
Capital Grants and Contributions	2,569,952	1,692,334	51.9
<u>General Revenues</u>			
Property Taxes	35,961,230	26,316,221	36.7
Unrestricted State Aid	75,836,806	76,111,678	(0.4)
Investment Earnings	6,864	-	N/A
Other	374,828	730,203	(48.7)
Total Revenues	141,768,548	131,485,464	7.8
Expenses			
Administration	5,873,402	5,607,937	4.7
District Support Services	3,133,379	2,850,470	9.9
Regular Instruction	51,429,239	48,664,616	5.7
Vocational Education Instruction	705,448	740,927	(4.8)
Special Education Instruction	22,826,288	22,987,253	(0.7)
Instructional Support Services	5,104,669	4,841,451	5.4
Pupil Support Services	10,122,364	9,589,214	5.6
Sites and Buildings	15,173,527	10,373,680	46.3
Fiscal and Other Fixed Cost Programs	299,811	163,550	83.3
Food Service	4,976,887	5,144,397	(3.3)
Community Service	5,864,751	6,478,293	(9.5)
Unallocated - Depreciation	-	6,331,969	-100.00%
Interest and Fiscal Charges on Long-Term Liabilities	5,988,434	7,382,240	(18.9)
Total Expenses	131,498,198	131,155,997	0.3
Increase in Net Position	10,270,350	329,467	
Beginning Net Position	(34,087,695)	(34,417,162)	
Prior Period Restatement	(74,822,249)	-	
Beginning Net Position, as Restated	(108,909,944)	(34,417,162)	
Ending Net Position	\$ (98,639,594)	\$ (34,087,695)	

Total revenues were \$141,768,548 while total expenses were \$131,498,198 increasing net position by \$10,270,350. The District also recorded a prior period restatement primarily related to the School's required implementation of GASB Statements Nos. 68 and 71, which decreased net position \$74,822,249.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The cost of all *governmental* activities this year was \$131,498,198.

- A portion of the cost was paid by the users of the District's programs (Table A-2, Charges for Services, \$10,256,291). The majority of this category, \$7.9 million, comes from food service meal sales and community education class tuition.
- The federal and state governments subsidized certain programs with grants and contributions (Table A-2, Operating and Capital Grants and Contributions, \$16,762,577).
- Most of the District's costs were supported by local property taxes, unrestricted state aid, investment earnings, and other general revenues. Governmental activities were sustained by accessing \$35,961,230 in property taxes, \$75,836,806 of unrestricted state aid, and with investment earnings and other general revenues.



**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

All governmental activities include not only funds received for the general operation of the District, which are used for classroom instruction, but also include resources from the entrepreneurial-type funds of Food Service and Community Education. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance general operation resources. The District cannot take funds from these restricted areas and use the funds to enhance instruction-related programs.

Table A-3, seen below, presents the cost of twelve major District activities such as, instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

**Table A-3
Change in Net Position**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2014		2015	2014	
Administration	\$ 5,873,402	\$ 5,607,937	4.7 %	\$ 5,581,200	\$ 5,303,466	5.2 %
District Support Services	3,133,379	2,850,470	9.9	2,967,240	2,850,470	4.1
Regular Instruction	51,429,239	48,664,616	5.7	48,212,273	46,276,964	4.2
Vocational Education Instruction	705,448	740,927	(4.8)	659,048	687,572	(4.1)
Special Education Instruction	22,826,288	22,987,253	(0.7)	8,818,989	10,528,073	(16.2)
Instructional Support Services	5,104,669	4,841,451	5.4	5,028,938	4,841,451	3.9
Pupil Support Services	10,122,364	9,589,214	5.6	10,072,031	9,484,383	6.2
Sites and Buildings	15,173,527	10,373,680	46.3	13,428,496	8,500,639	58.0
Fiscal and Other Fixed Cost Programs	299,811	163,550	83.3	299,811	163,550	83.3
Food Service	4,976,887	5,144,397	(3.3)	(296,205)	(74,813)	295.9
Community Service	5,864,751	6,478,293	(9.0)	1,149,124	552,716	107.9
Unallocated - Depreciation	-	6,331,969	(100)	-	6,331,969	(100.0)
Interest and Fiscal Charges on Long-Term Liabilities	5,988,434	7,382,240	(18.9)	5,988,434	7,382,240	(18.9)
Total	<u>\$ 131,498,198</u>	<u>\$ 131,155,997</u>	-	<u>\$ 101,909,378</u>	<u>\$ 102,828,680</u>	(0.9)

The cost of all governmental activities this year was \$131,498,198, an increase of \$342,201 over the prior year. After applying program specific revenue, the net cost of all governmental activities this year was \$101,909,378 or a decrease of \$919,302 from the prior year.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. The General and Food Service Funds had more revenue than expenditures in 2014-15. The other funds, Community Service, Capital Projects-Building Construction and Debt Service all had planned deficit spending. At the end of the 2014-15 fiscal year, the District's governmental funds reported combined fund balances (non-spendable, restricted, committed, assigned and unassigned) of \$26,307,531, a net increase in fund balances of \$3,703,974. The increase is primarily the net effect of a significant increase in the General Fund's fund balance of \$6,314,779 and a significant decrease in the Capital Projects – Building Construction Fund's fund balance of \$2,540,362.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Revenues totaled \$141,765,317 plus other financing sources of \$1,510,331 for the District's governmental funds totaled \$143,275,648, while total expenditures were \$139,571,674. As a result, the District completed the year with a net change in fund balances of \$3,703,974.

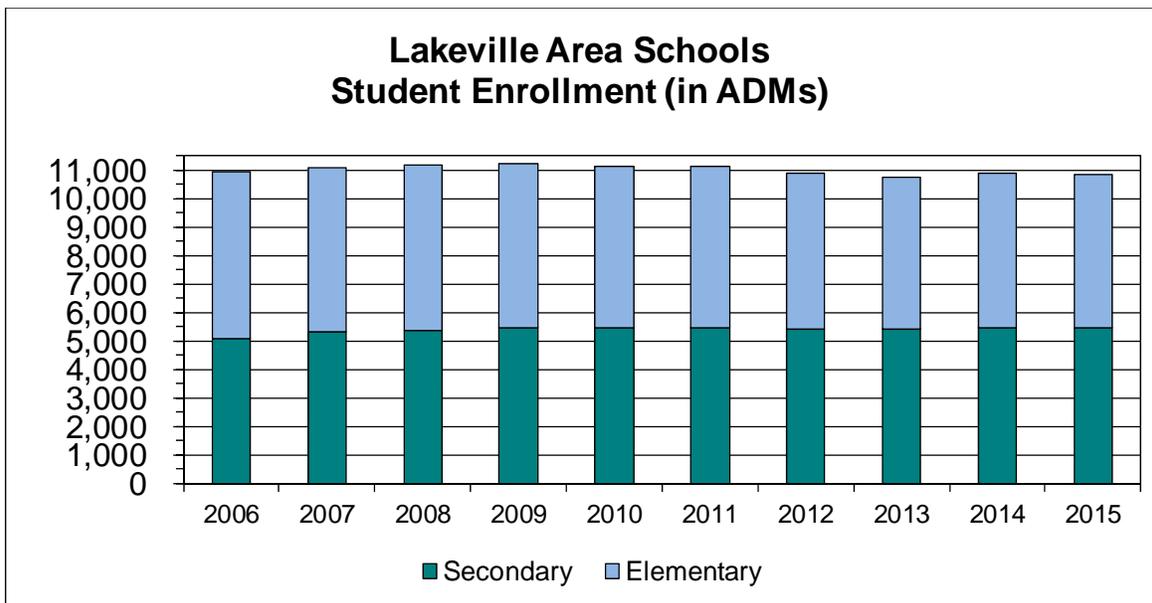
General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; District instructional and student support programs; expenditures for the superintendent; District administration; normal operations and maintenance; pupil transportation; capital expenditures; and legal school District expenditures not specifically designated to be accounted for in any other fund.

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 70% of General Fund revenue being determined by enrollment. The District has experienced relatively consistent enrollment during the last five years. The following chart shows the number of students served over the past ten years.

**Table A-4
Average Daily Membership (ADM)**



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Pre-K & KH	109	103	111	110	111	108	111	101	114	154
Reg K, Pre-K & KH	717	653	703	668	649	631	603	565	577	583
Elementary	5,003	4,996	5,006	4,970	4,906	4,881	4,724	4,681	4,710	4,656
Secondary	5,101	5,335	5,372	5,466	5,476	5,486	5,440	5,420	5,475	5,446
Total Students for Aid	10,930	11,088	11,193	11,214	11,142	11,106	10,879	10,767	10,876	10,839
Percent Change	2.37%	1.44%	0.94%	0.19%	-0.64%	-0.33%	-2.05%	-1.03%	1.02%	-0.34%

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 19,565,557	\$ 10,670,644	\$ 8,894,913	83.4 %
Earnings on Investments	192	2,982	(2,790)	(93.6)
Other	2,684,506	3,053,180	(368,674)	(12.1)
State Sources	90,270,230	88,161,846	2,108,384	2.4
Federal Sources	2,390,605	2,319,166	71,439	3.1
Total General Fund Revenue	<u>\$ 114,911,090</u>	<u>\$ 104,207,818</u>	<u>\$ 10,703,272</u>	10.3

General Fund revenue increased by \$10,703,272 or 10.3% from the previous year.

Property Taxes increased by \$8,894,913. This increase is primarily due to the adjustment in the property tax shift pay back in FY14 as approved by the MN Legislature.

State Sources increased \$2,108,384. The increase is mainly attributable to increases in state special education aid which includes amounts paid to the District for the prior year.

Federal Revenue is recorded in the year in which the related expenditure is made. Federal sources increased by \$71,439 or 3.1%.

General Fund Revenue is received in two major categories. In summary, the two categories are:

1. State Education Finance Appropriations
 - A. General Education Aid – The largest share of the education finance appropriation, general education aid, is intended to provide the basic financial support for the education program and is enrollment driven.
 - B. Categorical Aids – Categorical revenue formulas are used to meet costs of that program (i.e. special education) or promote certain types of programs (i.e., career and technical aid, adult basic education aid).
2. Property Tax Levies

The largest share of the levy is from voter-approved levies: the excess operating referendum which is also enrollment driven.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2015	June 30, 2014		
Salaries	\$ 64,340,585	\$ 61,334,202	\$ 3,006,383	4.9 %
Employee Benefits	26,275,817	24,112,506	2,163,311	9.0
Purchased Services	12,263,874	12,478,888	(215,014)	(1.7)
Supplies and Materials	2,839,560	3,264,088	(424,528)	(13.0)
Capital Expenditures	3,390,433	2,453,142	937,291	38.2
Other Expenditures	996,373	1,172,155	(175,782)	(15.0)
Total Expenditures	<u>\$ 110,106,642</u>	<u>\$ 104,814,981</u>	<u>\$ 5,291,661</u>	5.0

Total General Fund expenditures increased \$5,291,661 or 5.0% from the previous year.

Overall salaries increased by \$3,006,383 or 4.9% over the prior year due to FTE increases in staffing as well as negotiated cost-of-living adjustments and related contractual settlements.

Employee benefits increased \$2,164,662 or 9.0% over the previous year. Included is the impact of premium costs for coverages impacted by the Affordable Care Act as well as statutorily required increases in the contribution percentage to statewide pension plans (TRA and PERA).

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1) and is referred to as the original budget. Over the course of the year, the District revised its annual operating budget to the appropriate levels. The budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, adjusting staffing and various instructional allocations to the schools based on actual enrollment and unspent funds carried over from fiscal year 2013-14.
- Increase in appropriations for significant unbudgeted costs.

While the District anticipated that the net change in fund balance would be a decrease of \$417,309, total fund balance increased by \$6,314,779 resulting in a total fund balance of \$16,230,243 at June 30, 2015. The unassigned portion of the fund balance in the General Fund is 11.53% of expenditures. Revenue was over budget by 1.73% or \$1,955,511. The variance is primarily due to the net effect of a few items. The District received \$2,650,197 more in State sources than budgeted mostly due to conservative budgeting of state special education aid and the allocation of revenue between state sources and property taxes. Property taxes were \$713,298 under budget but this was offset by increased state aid amounts.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Food Service Fund

The Food Service Fund revenue for 2014-15 totaled \$5,273,115 and expenditures were \$4,982,108. The June 30, 2015 fund balance is \$1,738,249, an increase of \$291,007 from fiscal year 2014. An increase in fund balance of \$111,333 from 2014 was budgeted. Results were better than budgeted due to keeping expenditures under the budgeted amount by \$333,348 or 6.3%.

Community Service Fund

The Community Service Fund revenue for 2014-15 totaled \$5,667,607 and expenditures were \$5,878,786. The June 30, 2015 fund balance is \$639,752, a decrease of \$211,179 from fiscal year 2014. Actual revenues were 2.4% or \$137,693 under budget and expenditures were 1.9% or \$116,459 under budget. A decrease in total fund balance of \$189,945 from 2014 was budgeted.

Capital Projects - Building Construction Fund

The Capital Projects - Building Construction Fund revenue for 2014-15 totaled \$5,496 which was investment earnings. The District issued \$5,065,000 in 2014A Alternative Facilities Bonds that will be used to finance future capital projects with the District. The June 30, 2015 fund balance of \$4,568,282 is restricted for alternative facilities.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction for initial or refunding bonds. The Debt Service Fund revenue for 2014-15 totaled \$15,908,012 and expenditures were \$16,058,283 bringing the June 30, 2015 total fund balance to \$3,131,005, a decrease of \$150,271 from fiscal year 2014.

The total fund balance of \$3,131,005 is restricted for debt payments related to regular bond sales.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of June 30, 2015, the District had invested just over \$252.5 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was approximately \$6.7 million.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

**Table A-7
The District's Capital Assets**

	<u>2015</u>	<u>2014</u>	<u>Percentage Change</u>
Land	\$ 5,022,023	\$ 5,022,023	-
Construction in Progress	2,606,288	2,268,742	14.9
Land Improvements	24,274,092	17,755,464	36.7
Buildings and Improvements	190,315,642	193,739,261	(1.8)
Equipment	30,315,030	30,227,128	0.3
Less: Accumulated Depreciation	<u>(128,391,883)</u>	<u>(121,662,858)</u>	5.5
Total	<u>\$ 124,141,192</u>	<u>\$ 127,349,760</u>	(2.5)

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Long-Term Liabilities

At year-end, the District had a total net amount of \$154,420,970 in general obligation bonds outstanding as shown in Note 5 to the financial statements. The District had \$2,621,639 in obligations under capital leases, an increase of \$331,408. The District also had an estimated total of \$11,159,866 in early retirement incentive pay, net severance, and compensated absences at June 30, 2015, a net increase of \$443,642 from June 30, 2014, as well as a net OPEB obligation of \$10,059,993. Finally, related to the District's implementation of GASB Statement Nos. 68 and 71 as of June 30, 2015, the School recorded a net pension liability of \$64,366,608.

**Table A-8
The District's Long-Term Liabilities**

	2015	2014	Percentage Change
General Obligation Bonds	\$ 145,930,000	\$ 155,085,000	(5.9)%
Net Bond Premium and Discount	8,490,970	10,005,717	(15.1)
Obligations Under Capital Leases	2,621,639	2,290,231	14.5
Pension Benefits Payable	64,366,608	-	N/A
Net OPEB Obligation	10,059,993	8,685,899	15.8
Early Retirement Incentive Pay	461,667	461,412	0.1
Severance Benefits Payable	10,487,021	9,909,649	5.8
Compensated Absences Payable	211,178	345,163	(38.8)
Total	\$ 242,629,076	\$ 186,783,071	29.9
Long-Term Liabilities:			
Due Within One Year	\$ 11,635,515	\$ 10,748,415	
Due in More than One Year	230,993,561	176,034,656	
	\$ 242,629,076	\$ 186,783,071	

FACTORS BEARING ON THE DISTRICT'S FUTURE

Similar to other states throughout the nation, the state of Minnesota has experienced major budget shortfalls with expenditures outpacing revenues in recent years. The state's financial difficulties have produced delays in state aid payments and property tax recognition shifts to school districts. The state economy has improved and is expected to continue to improve over the next couple of years. The state was able to repay the property tax recognition shifts and delayed payments have been restored.

With the exception of the voter-approved excess operating referendum, the District is dependent on the state of Minnesota for its revenue authority. 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.

For 2015, the Legislature approved an increase to the funding formula of 2% and an additional 2% for 2016. The funding formula has been below the current annual rate of inflation for the last twenty years. Accordingly, the District continues to utilize sophisticated enrollment and financial planning tools, along with detailed and conservative budgeting and budget monitoring processes. The District will continue to seek all available sources of funding, respond to enrollment increases, balance revenue to expenditures, and maintain systems that ensure financial stability.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Independent School District No. 194, 8670 – 210th Street West, Lakeville, Minnesota 55044.

BASIC FINANCIAL STATEMENTS

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Governmental Activities 2015</u>
ASSETS	
Cash and Investments	\$ 38,455,970
Receivables:	
Property Taxes	20,611,552
Other Governments	13,757,913
Other	500,769
Prepaid Items	192,452
Inventory	76,283
Capital Assets:	
Land and Construction in Progress	7,628,311
Other Capital Assets, Net of Depreciation	<u>116,512,881</u>
Total Assets	<u>197,736,131</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Refunding	4,009,818
Pension Deferred Outflows	<u>11,396,824</u>
	15,406,642
LIABILITIES	
Salaries and Compensated Absences Payable	9,132,882
Accounts and Contracts Payable	1,494,234
Accrued Interest Payable	2,567,101
Unearned Revenue:	
Local Sources	715,597
Long-Term Liabilities:	
Portion Due Within One Year	11,635,515
Portion Due in More Than One Year	<u>230,993,561</u>
Total Liabilities	<u>256,538,890</u>
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied for Subsequent Year	35,171,065
Pension Deferred Inflows	<u>20,072,412</u>
	55,243,477
NET POSITION	
Net Investment in Capital Assets	(24,323,317)
Restricted for:	
Capital Asset Acquisition	79,839
General Fund State-Mandated Reserves	1,261,128
Food Service	1,738,249
Community Service	648,308
Debt Service	685,082
Unrestricted	<u>(78,728,883)</u>
Total Net Position	<u>\$ (98,639,594)</u>

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

2015					
Functions	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total Governmental Activities
Governmental Activities					
Administration	\$ 5,873,402	\$ 253,565	\$ -	\$ 38,637	\$ (5,581,200)
District Support Services	3,133,379	-	-	166,139	(2,967,240)
Regular Instruction	51,429,239	1,879,754	601,680	735,532	(48,212,273)
Vocational Education Instruction	705,448	-	46,400	-	(659,048)
Special Education Instruction	22,826,288	29,317	13,977,982	-	(8,818,989)
Instructional Support Services	5,104,669	-	-	75,731	(5,028,938)
Pupil Support Services	10,122,364	-	50,333	-	(10,072,031)
Sites and Buildings	15,173,527	191,118	-	1,553,913	(13,428,496)
Fiscal and Other Fixed Cost Programs	299,811	-	-	-	(299,811)
Food Service	4,976,887	3,849,753	1,423,339	-	296,205
Community Service	5,864,751	4,052,784	662,843	-	(1,149,124)
Interest and Fiscal Charges on Long-Term Liabilities	5,988,434	-	-	-	(5,988,434)
Total School District	<u>\$ 131,498,198</u>	<u>\$ 10,256,291</u>	<u>\$ 16,762,577</u>	<u>\$ 2,569,952</u>	<u>(101,909,378)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					19,558,029
Community Service					952,601
Debt Service					15,450,600
State and Federal Aid Not Restricted to Specific Purposes					75,836,806
Earnings on Investments					6,864
Gain on Sale of Capital Assets					964
Miscellaneous					<u>373,864</u>
Total General Revenues					112,179,728
Change in Net Position					10,270,350
Net Position - Beginning as Previously Reported					(34,087,695)
Prior Period Restatement - See Note 13					<u>(74,822,249)</u>
Net Position - Beginning, as Restated					<u>(108,909,944)</u>
Net Position - Ending					<u>\$ (98,639,594)</u>

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	Major Funds					Total Governmental Funds 2015
	General	Food Service	Community Service	Capital Projects - Building Construction	Debt Service	
ASSETS						
Cash and Investments	\$ 18,449,276	\$ 1,943,206	\$ 1,675,288	\$ 5,050,422	\$ 10,685,660	\$ 37,803,852
Receivables:						
Current Property Taxes	11,008,687	-	493,154	-	8,762,923	20,264,764
Delinquent Property Taxes	159,938	-	12,101	-	174,749	346,788
Due from Other Minnesota School Districts	77,077	-	-	-	-	77,077
Due from Minnesota Department of Education	11,431,873	-	64,750	-	1,240	11,497,863
Due from Federal through Minnesota Department of Education	2,056,559	-	11,737	-	-	2,068,296
Due from Other Governmental Units	114,677	-	-	-	-	114,677
Other Receivables	492,853	2,862	4,806	248	-	500,769
Prepaid Items	185,338	7,114	-	-	-	192,452
Inventory	-	76,283	-	-	-	76,283
Total Assets	\$ 43,976,278	\$ 2,029,465	\$ 2,261,836	\$ 5,050,670	\$ 19,624,572	\$ 72,942,821
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities:						
Salaries and Payroll Deductions Payable	\$ 8,761,839	\$ 94,788	\$ 276,255	\$ -	\$ -	\$ 9,132,882
Accounts and Contracts Payable	863,282	10,038	16,340	482,388	-	1,372,048
Unearned Revenue:						
Local Sources	129,669	186,390	399,538	-	-	715,597
Total Liabilities	9,754,790	291,216	692,133	482,388	-	11,220,527
Deferred Inflows of Resources:						
Property Taxes Levied for Subsequent Year	17,877,281	-	921,395	-	16,372,389	35,171,065
Unavailable Revenue - Delinquent Taxes	113,964	-	8,556	-	121,178	243,698
Total Deferred Inflows of Resources	17,991,245	-	929,951	-	16,493,567	35,414,763
Fund Balance:						
Nonspendable:						
Prepaid Items	185,338	7,114	-	-	-	192,452
Inventory	-	76,283	-	-	-	76,283
Restricted for:						
Staff Development	1,181,427	-	-	-	-	1,181,427
Alternative Facilities	-	-	-	4,568,282	-	4,568,282
Severance Benefits	-	-	115,566	-	-	115,566
Health and Safety	79,701	-	-	-	-	79,701
Operating Capital	79,839	-	-	-	-	79,839
Safe Schools	53,472	-	-	-	-	53,472
Community Education Programs	-	-	330,347	-	-	330,347
Early Childhood and Family Educations Programs	-	-	154,829	-	-	154,829
School Readiness	-	-	12,407	-	-	12,407
Other Purposes	-	1,654,852	26,603	-	3,131,005	4,812,460
Assigned for:						
Subsequent Year Budget Deficit	851,924	-	-	-	-	851,924
Security	85,000	-	-	-	-	85,000
Flooding Repair at McGuire MS	14,000	-	-	-	-	14,000
Impact Academy Construction	15,935	-	-	-	-	15,935
Textbooks Order	91,472	-	-	-	-	91,472
Schools Carry-over	902,141	-	-	-	-	902,141
Unassigned	12,689,994	-	-	-	-	12,689,994
Total Fund Balance	16,230,243	1,738,249	639,752	4,568,282	3,131,005	26,307,531
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 43,976,278	\$ 2,029,465	\$ 2,261,836	\$ 5,050,670	\$ 19,624,572	\$ 72,942,821

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

	2015
Total Fund Balance for Governmental Funds	\$ 26,307,531
 Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Land	5,022,023
Construction in Progress	2,606,288
Land Improvements, Net of Accumulated Depreciation	18,436,455
Buildings and Improvements, Net of Accumulated Depreciation	94,988,813
Equipment, Net of Accumulated Depreciation	3,087,613
 Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows in the funds.	
	243,698
 Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	
	(2,567,101)
 The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:	
Net Pension Liability	(64,366,608)
Deferred Inflows of Resources - Pensions	(20,072,412)
Deferred Outflows of Resources - Pensions	11,396,824
 Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end is:	
	529,932
 Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:	
Bonds Payable	(145,930,000)
Unamortized Premiums	(8,490,970)
Deferred Outflows of Resources - Loss on Refunding	4,009,818
Obligations Under Capital Leases	(2,621,639)
Early Retirement Incentive Benefits Payable	(461,667)
Severance Benefits Payable	(10,487,021)
Compensated Absences Payable	(211,178)
Other Postemployment Benefits Payable	(10,059,993)
Total Net Position of Governmental Activities	\$ (98,639,594)

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	Major Funds					Total Governmental Funds 2015
	General	Food Service	Community Service	Capital Projects - Building Construction	Debt Service	
REVENUES						
Local Sources:						
Property Taxes	\$ 19,565,557	\$ -	\$ 951,956	\$ -	\$ 15,441,450	\$ 35,958,963
Earnings on Investments	192	23	24	5,493	1,132	6,864
Other	2,684,506	3,849,753	4,052,784	-	43,112	10,630,155
State Sources	90,270,230	175,247	651,106	-	12,399	91,108,982
Federal Sources	2,390,605	1,248,092	11,737	-	409,919	4,060,353
Total Revenues	114,911,090	5,273,115	5,667,607	5,493	15,908,012	141,765,317
EXPENDITURES						
Current:						
Administration	5,885,697	-	-	-	-	5,885,697
District Support Services	2,729,495	-	-	-	-	2,729,495
Regular Instruction	49,315,277	-	-	-	-	49,315,277
Vocational Education Instruction	681,137	-	-	-	-	681,137
Special Education Instruction	22,712,599	-	-	-	-	22,712,599
Instructional Support Services	4,948,881	-	-	-	-	4,948,881
Pupil Support Services	10,124,898	-	-	-	-	10,124,898
Sites and Buildings	8,748,389	-	-	-	-	8,748,389
Fiscal and Other Fixed Cost Programs	297,918	-	-	-	-	297,918
Food Service	-	4,962,735	-	-	-	4,962,735
Community Service	-	-	5,793,209	-	-	5,793,209
Capital Outlay	3,390,433	19,373	85,577	2,545,855	-	6,041,238
Debt Service:						
Principal	1,177,959	-	-	-	9,155,000	10,332,959
Interest and Fiscal Charges	93,959	-	-	-	6,903,283	6,997,242
Total Expenditures	110,106,642	4,982,108	5,878,786	2,545,855	16,058,283	139,571,674
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,804,448	291,007	(211,179)	(2,540,362)	(150,271)	2,193,643
OTHER FINANCING SOURCES (USES)						
Capital Lease Proceeds	1,509,367	-	-	-	-	1,509,367
Sale of Equipment Proceeds	964	-	-	-	-	964
Total Other Financing Sources (Uses)	1,510,331	-	-	-	-	1,510,331
Net Change in Fund Balances	6,314,779	291,007	(211,179)	(2,540,362)	(150,271)	3,703,974
Fund Balances - Beginning	9,915,464	1,447,242	850,931	7,108,644	3,281,276	22,603,557
Fund Balances - Ending	\$ 16,230,243	\$ 1,738,249	\$ 639,752	\$ 4,568,282	\$ 3,131,005	\$ 26,307,531

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

	2015
Net Change in Fund Balance - Total Governmental Funds	\$ 3,703,974
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlays	3,520,457
Gain (Loss) on Disposal of Capital Assets	964
Proceeds from sales of capital assets	(964)
Depreciation Expense	(6,729,025)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.	
Other Financing Source - Capital Lease	(1,509,367)
Principal Payments - Capital Leases	1,177,959
Payment of the OPEB bond proceeds to the District's irrevocable trust are recognized as expenditures at the fund level while the assets of the trust, minus the OPEB liability recognized to date, represents an asset in the statement of net position.	
	(1,374,094)
Pension expenses on the governmental funds are measured by current year employer contributions. Pension expenditures on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.	
	1,780,053
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of discounts and premiums when debt is first issued, whereas discounts and premiums are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
Repayment of Bond Principal	9,155,000
Change in Accrued Interest Expense - General Obligation Bonds	127,190
Amortization of Deferred Outflow - Loss on Refunding	(633,129)
Amortization of Bond Premium	1,514,747
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	2,267
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	(443,642)
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.	
	(22,040)
Change in Net Position of Governmental Activities	\$ 10,270,350

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 20,278,855	\$ 20,278,855	\$ 19,565,557	\$ (713,298)
Earnings on Investments	-	-	192	192
Other	2,428,500	2,428,500	2,684,506	256,006
State Sources	87,496,254	87,620,033	90,270,230	2,650,197
Federal Sources	2,278,308	2,628,191	2,390,605	(237,586)
Total Revenues	<u>112,481,917</u>	<u>112,955,579</u>	<u>114,911,090</u>	<u>1,955,511</u>
EXPENDITURES				
Current:				
Administration	265,521	5,966,761	5,885,697	(81,064)
District Support Services	3,077,771	3,030,072	2,729,495	(300,577)
Elementary and Secondary Regular Instruction	51,517,492	51,609,574	49,315,277	(2,294,297)
Vocational Education Instruction	942,901	931,125	681,137	(249,988)
Special Education Instruction	22,938,896	23,357,151	22,712,599	(644,552)
Instructional Support Services	5,191,609	5,152,692	4,948,881	(203,811)
Pupil Support Services	10,070,353	10,086,886	10,124,898	38,012
Sites and Buildings	9,709,211	9,709,211	8,748,389	(960,822)
Fiscal and Other Fixed Cost Programs	305,000	305,000	297,918	(7,082)
Capital Outlay	2,466,013	2,205,574	3,390,433	1,184,859
Debt Service:				
Principal	524,326	924,326	1,177,959	253,633
Interest and Fiscal Charges	94,516	94,516	93,959	(557)
Total Expenditures	<u>107,103,609</u>	<u>113,372,888</u>	<u>110,106,642</u>	<u>(3,266,246)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	5,378,308	(417,309)	4,804,448	5,221,757
OTHER FINANCING USES				
Capital Lease Proceeds	-	-	1,509,367	1,509,367
Sale of Equipment Proceeds	-	-	964	964
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,510,331</u>	<u>1,510,331</u>
Net Change in Fund Balances	<u>\$ 5,378,308</u>	<u>\$ (417,309)</u>	6,314,779	<u>\$ 6,732,088</u>
FUND BALANCE				
Beginning of Year			<u>9,915,464</u>	
End of Year			<u>\$ 16,230,243</u>	

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ 23	\$ 23
Other - Primarily Meal Sales	4,087,307	4,087,307	3,849,753	(237,554)
State Sources	168,532	168,532	175,247	6,715
Federal Sources	1,170,950	1,170,950	1,248,092	77,142
Total Revenues	<u>5,426,789</u>	<u>5,426,789</u>	<u>5,273,115</u>	<u>(153,674)</u>
EXPENDITURES				
Current:				
Food Service	5,214,456	5,214,456	4,962,735	(251,721)
Capital Outlay	101,000	101,000	19,373	(81,627)
Total Expenditures	<u>5,315,456</u>	<u>5,315,456</u>	<u>4,982,108</u>	<u>(333,348)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 111,333</u>	<u>\$ 111,333</u>	291,007	<u>\$ 179,674</u>
FUND BALANCE				
Beginning of Year			<u>1,447,242</u>	
End of Year			<u>\$ 1,738,249</u>	

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 952,800	\$ 946,900	\$ 951,956	\$ 5,056
Earnings on Investments	1,000	3,200	24	(3,176)
Other - Primarily Tuition and Fees	4,021,600	4,173,400	4,052,784	(120,616)
State Sources	602,900	674,700	651,106	(23,594)
Federal Sources	7,100	7,100	11,737	4,637
Total Revenues	<u>5,585,400</u>	<u>5,805,300</u>	<u>5,667,607</u>	<u>(137,693)</u>
EXPENDITURES				
Current:				
Community Service	5,634,520	5,903,545	5,793,209	(110,336)
Capital Outlay	42,000	91,700	85,577	(6,123)
Total Expenditures	<u>5,676,520</u>	<u>5,995,245</u>	<u>5,878,786</u>	<u>(116,459)</u>
Deficiency of Revenues Under Expenditures	<u>\$ (91,120)</u>	<u>\$ (189,945)</u>	(211,179)	<u>\$ (21,234)</u>
FUND BALANCE				
Beginning of Year			<u>850,931</u>	
End of Year			<u>\$ 639,752</u>	

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 194
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 INTERNAL SERVICE FUND
 AS OF JUNE 30, 2015**

	2015
ASSETS	
Current Assets:	
Cash and Investments	\$ 652,118
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 122,186
NET POSITION	
Unrestricted	529,932
Total Liabilities and Net Position	\$ 652,118

See accompanying Notes to Basic Financial Statements.

LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2015

	2015
OPERATING REVENUES	
Dental Insurance Premiums	\$ 1,160,244
OPERATING EXPENSES	
Dental Insurance Claims and Expenses	1,182,284
Operating Income	(22,040)
Total Net Position - Beginning	551,972
Total Net Position - Ending	\$ 529,932

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2015**

	2015
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Interfund Services Provided	\$ 1,160,244
Payments for Medical Fees and Insurance Claims	(1,164,780)
Net Cash Provided (Used) by Operating Activities	-4536
Change in Cash and Cash Equivalents	(4,536)
Cash and Cash Equivalents - Beginning	656,654
Cash and Cash Equivalents - Ending	\$ 652,118
Displayed on Statements of Fund Net Position as:	
Cash and Investments	\$ 652,118
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (22,040)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Increase (Decrease) in Accounts Payable	17,504
Net Cash Provided (Used) by Operating Activities	\$ (4,536)

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Scholarship Private-Purpose Trust	SORLA Private-Purpose Trust	Employee Benefit Trust
ASSETS			
Cash and Investments	\$ 166,294	\$ 20,239	\$ 118,027
Accounts Receivable	-	700	-
Interest receivable	-	398	-
Total Assets	\$ 166,294	\$ 21,337	\$ 118,027
LIABILITIES			
Accounts and Contracts Payable	-	8,484	-
Total Liabilities	-	8,484	-
NET POSITION			
Held in Trust for Employee Benefits and Other Purposes	\$ 166,294	\$ 12,853	\$ 118,027

See accompanying Notes to Basic Financial Statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2015**

	Scholarship Private-Purpose Trust	SORLA Private-Purpose Trust	Employee Benefit Trust
ADDITIONS			
Plan Member Contributions	\$ -	\$ -	\$ 512,612
Other Revenue	-	90,954	-
Earnings on Investments	395	399	-
Total Additions	<u>395</u>	<u>91,353</u>	<u>512,612</u>
DEDUCTIONS			
Benefits Paid to Plan Members	-	-	501,989
Scholarships Awarded	1,000	-	-
Purchased Services	-	62,899	-
Supplies and Materials	-	15,455	-
Total Deductions	<u>1,000</u>	<u>78,354</u>	<u>501,989</u>
Change in Net Position	(605)	12,999	10,623
Net Position - Beginning of Year	<u>166,899</u>	<u>(146)</u>	<u>107,404</u>
Net Position - End of Year	<u>\$ 166,294</u>	<u>\$ 12,853</u>	<u>\$ 118,027</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 194 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Independent School District No. 194 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Change in Accounting Principle

During fiscal year ended June 30, 2015, Lakeville Area Public Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. They also improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. See Note 13 for more detail of the effect of this change in accounting principle on the financial statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basic Financial Statement Presentation

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

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

The District applies restricted resources first when an expense is incurred for 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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The proprietary (internal service) fund is presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the financial statement of the proprietary (internal service) fund is consolidated into the governmental activities in the government-wide financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other employee benefit) trust, private purpose trust and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 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. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It 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 projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund

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

Capital Projects Fund – Building Construction Fund

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

Debt Service Fund

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

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund

Internal Service Fund

The Internal Service Fund is used to account for the financial resources used for the District's self-insurance of the employee dental insurance programs.

Fiduciary Funds

Employee Benefit Trust Fund

The Employee Benefit Trust Fund is used to administer resources received and held by the District as the trustee for employees participating in the District's flexible benefit plan (Internal Revenue Code § 125 Cafeteria Plan).

Scholarship Private-Purpose Trust Fund

The Scholarship Private-Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties to award scholarships to students.

SORLA Private-Purpose Trust Fund

The SORLA Private-Purpose Trust Fund is used to account for resources held in trust to be used by the South of the River Learning Academy to provide programs to District staff.

F. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgeting (Continued)

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Budgeted amounts include mid-year budget amendments that amended revenue and expenditure budgets as follows:

<u>Revenues</u>	Original Budget	Amendments	Amended Budget
General Fund	\$ 112,481,917	\$ 473,662	\$ 112,955,579
Special Revenue Fund:			
Community Service Fund	\$ 5,585,400	\$ 219,900	\$ 5,805,300
 <u>Expenditures</u>			
General Fund	\$ 107,103,609	\$ 6,269,279	\$ 113,372,888
Special Revenue Fund:			
Community Service Fund	\$ 5,676,520	\$ 318,725	\$ 5,995,245

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

G. Cash and Investments

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

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. Interest earned on these investments is allocated directly to the escrow account.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash and Investments (Continued)

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

H. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, 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 then.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows/Inflows of Resources (Continued)

The District has two items that qualify for reporting in this category. When refunding debt issuances, the difference between the reacquisition price of the refunded debt and the net carrying amount of that debt (net of any unamortized premium or discount) is considered a deferred outflow of resources and amortized as a component of interest expense over the shorter of the remaining life of the refunded debt or the life of the new refunding debt. The District also recorded deferred outflows of resources due to the District's implementation GASB Statement Nos. 68 and 71 and the related net pension liability.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that occur related to revenue recognition. The first is property taxes levied for subsequent year. As an imposed non-exchange revenue transaction, property taxes received or reported as a receivable before the period for which the property taxes are levied are reported as a deferred inflow of resources in the government-wide financial statements and in the governmental fund financial statements. The second type of deferred inflows of resources is delinquent property taxes. Governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year end) under the modified accrual basis of accounting. Delinquent taxes not collected within 60 days after the District's year end are considered unavailable and reported as a deferred inflow of resources in the governmental fund financial statements. The third type of deferred inflows of resources was recorded due to the District's implementation GASB Statement Nos. 68 and 71 and the related net pension liability.

L. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Property Taxes (Continued)

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund and Debt Service Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$2,328,573) advance recognized as revenue in fiscal 2015 with no corresponding state aid adjustment. Certain other portions of the District's 2014 pay 2015 levy, normally revenue for the 2014-15 fiscal year, are also advance recognized as June 30, 2015, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2015, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

M. Capital Assets

Capital 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 District maintains a capital asset threshold level of \$5,000 or more and an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

Capital assets are recorded in the Government-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 15 to 40 years for land improvements and buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in process.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

N. 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. Bond premiums and discounts are amortized as a component of interest expense 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 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.

O. Accrued Employee Benefits

Vacation Pay

Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which are carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred as compensated absences payable in the government-wide financial statements. Vacation pay is accrued in the governmental fund financial statements only when used or matured due to employee termination or similar circumstances.

Sick Pay

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

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Employee Benefits (Continued)

Severance or Retirement Pay

Members of certain district employee groups, including teachers, may become eligible to receive lump sum severance or retirement pay benefits. Eligibility for these benefits is based on years of service and/or minimum age requirements. The amount of the severance or retirement benefit is calculated by converting a portion of unused accumulated sick leave. No employee can receive severance or retirement benefits that exceed one year's salary. Retirement benefits for certain eligible employees are paid into a post-employment tax sheltered annuity account. For all other employees, severance benefits are paid out directly to the employee.

Postemployment Health Care Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay the health insurance premiums for retired employees until they reach age 65. For employees meeting certain length of service experience requirements, the amount to be paid is equal to the same insurance premium benefit as a full-time employee. See Note 10 for further information.

P. 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.

Q. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets in these financial statements are labeled "Cash and Investments Held by Trustee".

R. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for prepaid General Fund and Community Service Fund revenues and school lunch balances for students.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance

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

Nonspendable – portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc.).

Committed – funds are established and modified by a resolution approved by the Board of Education.

Assigned – consists of internally imposed constraints. The Board of Education passed a resolution authorizing the Superintendent and Finance and Operations Director to assign fund balances and their intended uses.

Unassigned – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The District formally adopted a fund balance policy for the General Fund. The policy establishes a year-end minimum unassigned fund balance target of 5% of the annual operating budget.

T. Risk Management and Self-Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The District has established an Internal Service Fund to account for and finance its self-insured risk of loss for respective employee dental insurance plans. Under this plan the Internal Service Fund provides coverage to participating employees and their dependents for dental costs as described in the plans. See Note 12 for more details about the District's self-insurance.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Net Position

Net position represents the difference between assets, deferred outflow of resources and liabilities, and deferred inflows of resources in the government-wide, proprietary and Fiduciary Fund 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 imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

V. Use of Estimates

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund during the year ended June 30, 2015:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund:			
Capital Projects Fund	\$ 2,255,000	\$ 2,545,855	\$ 290,855

The overages were considered by District management to be the result of necessary expenditures critical to operations and were approved by the Board.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District's Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the District's deposits in banks at June 30, 2015 is \$4,454,770 and \$6,293,522, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

At June 30, 2015, the District's petty cash fund totaled \$4,000.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- Investments related to the OPEB Revocable Trust Fund may be invested in accordance with Minnesota statute 356A.06.

At June 30, 2015, the District's investment balances were as follows:

MN Trust Investment Shares	\$ 788,371
MN Trust TERM Series	2,000,677
Negotiable CDs	2,448,911
MSDLAF+ Liquid Class	10,652,192
MSDLAF+ Max Class	18,413,828
Total	<u>\$ 34,303,979</u>

The MSDLAF+ is an external investment pool and its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit ratings for the District's investments are as follows:

<u>Type</u>	<u>Credit Quality Rating</u>	<u>Amount</u>
MN Trust Investment Shares Portfolio	AAAm	\$ 788,371
MN Trust Term Series	N/A	2,000,677
MSDLAF+ Liquid Class	AAAm	10,652,192
MSDLAF+ Max Class	AAAm	18,413,828
Total		<u>\$ 31,855,068</u>

Custodial Credit Risk – For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The School District's investment policy requires that brokers provide insurance to cover balances held in each investment account. As of June 30, 2015, the investment balances were fully covered by insurance for each brokerage firm.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

Maturities of the District's investments are as follows:

**Interest Rate Risk
DISTRICT HOLDINGS**

<u>Type</u>	<u>Less than 1 year</u>	<u>1 -2 years</u>	<u>2 - 5 years</u>
MN Trust Term Series	\$ 2,000,677	\$ -	\$ -
MN Trust Investment Shares	788,371	-	-
Negotiable CDs	2,448,911	-	-
Total	<u>\$ 5,237,959</u>	<u>\$ -</u>	<u>\$ -</u>

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk

The District places no limit on the amount that the District may invest in any one issuer. As of June 30, 2015 the District did not have any related investments in an issuer which individually comprised more than 5% of total investments.

The deposits and investments are presented in the financial statements as follows:

Statement of Net Position:

Cash and Temporary Investments	\$ 38,455,970
Cash and Investments - Held by Trustee	-

Statement of Fiduciary Net Position:

Cash and Temporary Investments	304,560
Total Cash and Investments	<u>\$ 38,760,530</u>

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Transfers / Adjustments	Ending Balance
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 5,022,023	\$ -	\$ -	\$ -	\$ 5,022,023
Construction in Progress	2,268,742	1,915,799	(1,578,253)	-	2,606,288
Total Capital Assets, Not Being Depreciated	7,290,765	1,915,799	(1,578,253)	-	7,628,311
Capital Assets, Being Depreciated:					
Land Improvements	17,755,464	1,585,642	-	4,932,986	24,274,092
Buildings and Improvements	193,739,261	1,509,367	-	(4,932,986)	190,315,642
Equipment	30,227,128	87,902	-	-	30,315,030
Total Capital Assets, Being Depreciated	241,721,853	3,182,911	-	-	244,904,764
Accumulated Depreciation for:					
Land Improvements	(4,085,605)	(1,036,842)	-	(715,190)	(5,837,637)
Buildings and Improvements	(89,810,979)	(5,205,034)	-	(310,816)	(95,326,829)
Equipment	(27,766,274)	(719,439)	-	1,258,296	(27,227,417)
Total Accumulated Depreciation	(121,662,858)	(6,961,315)	-	232,290	(128,391,883)
Total Capital Assets, Being Depreciated, Net	120,058,995	(3,778,404)	-	232,290	116,512,881
Governmental Activities Capital Assets, Net	<u>\$ 127,349,760</u>	<u>\$ (1,862,605)</u>	<u>\$ (1,578,253)</u>	<u>\$ 232,290</u>	<u>\$ 124,141,192</u>

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows:

Governmental Activities

Administration	\$ 10,288
District Support Services	51,746
Regular Instruction	67,158
Vocational Education Instruction	546
Instructional Support Services	6,757
Sites and Buildings	6,574,842
Fiscal and Other Fixed Cost Programs	1,893
Food Service	10,580
Community Service	5,215
	<u>5,215</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 6,729,025</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of General Long-Term Debt

Issue	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
2006D Refunding Bonds	4.14%	\$ 72,415,000	8/1/2016	\$ 4,050,000	\$ 65,905,000
2008A Alternative Facilities Bonds	3.00% - 4.25%	4,000,000	2/1/2022	350,000	3,300,000
2008B Refunding Bonds	4.00% - 5.00%	15,885,000	2/1/2018	5,405,000	13,370,000
2010A Alternative Facilities Bonds	5.00% - 5.05%	8,800,000	6/1/2026	-	8,800,000
2012B Alternative Facilities Bonds	3.00%	7,720,000	2/1/2025	-	7,720,000
2012D Refunding Bonds	4.00% - 5.00%	43,885,000	2/1/2022	235,000	41,770,000
2014A Alternative Facilities Bonds	2.52%	5,065,000	2/1/2026	-	5,065,000
Total General Obligation Bonds				10,040,000	145,930,000
Bond Premium - Net				-	8,490,970
Capital Lease Payable				785,781	2,621,639
Pension Benefits Payable				-	64,366,608
Other Postemployment Benefits Payable				-	10,059,993
Early Retirement Incentive Pay				132,235	461,667
Severance Benefits Payable				466,321	10,487,021
Compensated Absences Payable				211,178	211,178
				<u>\$ 11,635,515</u>	<u>\$ 242,629,076</u>

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Descriptions of Long-Term Liabilities

General Obligation Bonds Payable

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

In December 2006, the District issued \$72,415,000 of General Obligation Building Refunding Bonds, Series 2006D. The proceeds of this issue were used to advance crossover refund the 2002A School Building Bonds and 2002B School Building Capital Appreciation Bonds. This crossover refunding reduced the District's total future debt service payments by \$5,411,824 and resulted in a present value savings of approximately \$3,380,529.

In May 2008, the District issued \$4,000,000 of General Obligation Alternative Facilities Bonds, Series 2008A. The proceeds of this issue were used to fund various future projects as part of the District's ten-year facility capital improvement plan.

In November 2008, the District issued \$15,885,000 of General Obligation School Building Refunding Bonds, Series 2008B. The proceeds of this issue were used to currently refund the 1998 School Building Refunding Bonds. This refunding will result in a net present value debt service savings of \$577,173.

In June 2010, the District issued \$8,800,000 of General Obligation Alternative Facilities Bonds, Series 2010A. The proceeds of this issue were used to fund various future projects as part of the District's ten-year facility capital improvement plan. These bonds were issued as Qualified School Construction Bonds – Direct Pay, for which the District will receive a federal tax credit equal to 100 percent of the interest payment on this debt issue.

In May 2012, the District issued \$7,720,000 of General Obligation Alternative Facilities and Refunding Bonds, Series 2012B. The proceeds of this issue were used to fund various future projects as part of the District's ten-year facility capital improvement plan.

In November 2012, the District issued \$43,885,000 of General Obligation School Building Refunding Bonds, Series 2012D. The proceeds were be used to advance refund the 2005A Bonds School Building Refunding Bonds and 2006A Alternative Facilities Bonds for a net present value debt service savings of \$10,532,999.

In June 2014, the District issued \$5,065,000 of General Obligation Alternative Facilities Bonds, Series 2014A. The proceeds of this issue were used to fund various future projects as part of the District's ten-year facility capital improvement plan.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Descriptions of Long-Term Liabilities (Continued)

Capital Leases

In July of 2004, the District entered into a lease-purchase agreement with the Wells Fargo Brokerage Services, LLC to finance the purchase of five backup generators an existing bus garage site capitalized at \$2,500,000. The lease bears an interest rate of 5.72% and a final maturity of July 13, 2021. The District makes semi-annual payments through the General Fund. Accumulated depreciation as of June 30, 2015 was \$1,543,500.

In August of 2013, the District entered into a lease-purchase agreement to finance the purchase of 633 Apple Computers. As the computers were individually under the District's capitalization threshold, the computers have not been capitalized. The lease bears an interest rate of 2.99% and a final maturity of August 15, 2015. The District makes annual payments through the General Fund.

In August of 2014, the District entered into a lease-purchase agreement to finance the purchase and install wireless network infrastructure capitalized at \$1,509,367. The lease bears an interest rate of 1.275% and a final maturity of July 24, 2017. The District makes annual payments through the General Fund. Accumulated depreciation as of June 30, 2015 was \$377,342.

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including severance and health benefits payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable		Capital Lease Payable	
	Principal	Interest	Principal	Interest
2016	\$ 10,040,000	\$ 6,581,483	\$ 785,782	\$ 85,492
2017	11,150,000	6,087,683	547,412	69,039
2018	13,205,000	5,537,633	562,200	54,249
2019	14,750,000	4,882,383	193,087	38,819
2020	16,360,000	4,197,363	204,289	27,617
2021 - 2025	73,400,000	9,577,819	328,869	18,988
2026	7,025,000	287,825	-	-
Total	<u>\$ 145,930,000</u>	<u>\$ 37,152,189</u>	<u>\$ 2,621,639</u>	<u>\$ 294,204</u>

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2014	Net Additions	Retirements	June 30, 2015
Bonds Payable	\$ 155,085,000	\$ -	\$ 9,155,000	\$ 145,930,000
Bond Premium	10,005,717	-	1,514,747	8,490,970
Capital Leases Payable	2,290,231	1,509,367	1,177,959	2,621,639
Pension Benefits Payable	79,457,055	-	15,090,447	64,366,608
Other Postemployment Benefits Payable	8,685,899	2,427,615	1,053,521	10,059,993
Early Retirement Incentive Pay	461,412	132,417	132,162	461,667
Severance Benefits Payable	9,909,649	1,018,019	440,647	10,487,021
Compensated Absences Payable - Net	345,163	475,437	609,422	211,178
	<u>\$ 266,240,126</u>	<u>\$ 5,562,855</u>	<u>\$ 29,173,905</u>	<u>\$ 242,629,076</u>

Governmental compensated absences, severance benefits, and other postemployment benefits are typically liquidated (paid) by the operating funds.

NOTE 6 INTERFUND BALANCES AND TRANSFERS

The District had no interfund transfers, receivables, or payables for the year ended June 30, 2015.

NOTE 7 FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. A description of deficit balance reserves is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted and Assigned fund balances at year-end are as follows:

Restricted for Staff Development – Represents available resources dedicated exclusively for staff development in accordance with state statute.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 FUND BALANCES (CONTINUED)

Restricted for Alternative Facilities Program – Represents available resources from the capital projects levy to be used for deferred maintenance.

Restricted for Basic Skills Program – Represents available resources to be used for basic skills programs as specified by state statute.

Restricted for Health and Safety – Represents available resources to be used exclusively for capital expenditure health and safety projects. Revenues are derived from tax levies and expenditures are for necessary corrections for fire and life safety hazards, asbestos removal and related repairs and cleanup, removal, disposal and repairs related to storing heating fuel or transportation fuel.

Restricted for Operating Capital – The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

Restricted for Community Education Programs – Represents accumulated resources available to provide general community education programming.

Restricted for Early Childhood and Family Education Programs – Represents accumulated resources available to provide services for early childhood and family education programming.

Restricted for Bond Refundings – Represents available resources dedicated for refunding bond payments.

Restricted for Building Construction – Represents available resources dedicated exclusively for building construction projects.

Restricted for Other Purposes – Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Assigned for Transportation – Represents amounts that are assigned for transportation costs.

Assigned for 21st Century – Represents dollars assigned for the District's 21st Century program.

Assigned for Separation/Retirement Benefits – Represents amounts assigned for retirement benefits, including compensated absences, pension, other postemployment benefits and termination benefits.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 FUND BALANCES (CONTINUED)

Assigned for Third Party Billing Med-Asst. – Represents dollars assigned related to third-party/medical assistance.

Assigned for Capital Maintenance – Victoria Field House – Represents dollars assigned for the capital maintenance of the Victoria Field House.

Assigned for Quality Comp (Alternative Compensation) – Represents dollars assigned for unspent Q-Comp Aid and Levy revenue.

Assigned for Deferred Maintenance Projects – Represents funds set-aside to fund deferred maintenance projects.

Assigned for Capital Projects – Designated funds to support security and technology.

Assigned for Purchase of Crosby Park Building – Represents dollars assigned for the purchase of a building.

Assigned for Site Carryover – Represents dollars assigned for unspent site supply allocations.

NOTE 8 DEFINED BENEFIT PENSION PLANS

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

A. Plan Description

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

1. General Employees Retirement Plan (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 General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

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 schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members.

B. Benefits Provided

PERA and TRA provide 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.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

1. GERS 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.

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NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. TRA Benefits

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

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

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service 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 Services Years are July 1, 2006 or After	1.9% per Year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

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. 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.

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NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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

C. Contributions

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

1. GERF 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 \$1,223,505. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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 District's contributions to TRA for the plan's fiscal year ended June 30, 2015 were \$4,015,982. The District's contributions were equal to the required contributions for each year as set by state statute.

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NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2015, the District reported a liability of \$14,660,894 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, 2015, the District's proportion was .3121%.

For the year ended June 30, 2015, the District recognized pension expense of \$1,088,355 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 from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 224,999	\$ -
Changes in Actuarial Assumptions	1,510,951	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	3,961,360
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	-	-
District Contributions Subsequent to the Measurement Date	1,223,283	-
Total	<u>\$ 2,959,233</u>	<u>\$ 3,961,360</u>

A total of \$1,223,283 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.

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NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (411,690)
2017	(411,690)
2018	(411,690)
2019	(990,340)
2020	-
Thereafter	-

2. TRA Pension Costs

At June 30, 2015, the District reported a liability of \$49,705,714 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 1.0787% at the end of the measurement period and 1.0889% for the beginning of the period.

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:

TRA Pension Costs

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 49,705,714
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	3,496,776

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.

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2015, the District recognized pension expense of \$2,383,791. It also recognized \$152,539 as pension expense for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 4,241,246	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	15,626,976
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	180,714	484,076
District Contributions Subsequent to the Measurement Date	4,015,631	-
Total	<u>\$ 8,437,591</u>	<u>\$ 16,111,052</u>

A total of \$4,015,631 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 ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (3,084,639)
2017	(3,084,639)
2018	(3,084,639)
2019	(3,084,639)
2020	649,464
Thereafter	-

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per Year	3.50%
Active Member Payroll Growth	3.50% per Year	3.75% Based on Years of Service
Investment Rate of Return	7.90%	8.25%

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

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

The following changes in actuarial assumptions for GERP 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.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Postretirement 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.

The long-term expected rate of return on pension plan investments is 7.9% for GERP and 8.25% for TRA. 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.

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the School'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 School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 23,633,954	\$ 14,660,894	\$ 7,278,178
<u>TRA Discount Rate</u>	7.25%	8.25%	9.25%
District's Proportionate Share of the TRA Net Pension Liability	\$ 82,146,532	\$ 49,705,714	\$ 22,661,297

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about GERP's fiduciary's 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.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

NOTE 9 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Contingencies

The District is subject to legal proceedings and claims which arise in the ordinary course of business. As of the date of these financial statements, it is not determinable what the outcome of these issues will be or the potential liability, if any, to the District.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS PAYABLE

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of July 1, 2014.

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the District's health insurance plan. There are 1,307 active participants and 80 retired participants. Benefit and eligibility provisions are established through individual contracts and negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement. For fiscal year 2015, the District contributed \$1,053,521 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 2,596,726
Interest on Net OPEB Obligation	347,436
Adjustment to Annual Required Contribution	<u>(516,547)</u>
Annual OPEB Cost (Expense)	2,427,615
Contributions Made	<u>(1,053,521)</u>
Increase in Net OPEB Obligation	1,374,094
Net OPEB Obligation - Beginning of Year	8,685,899
Net OPEB Obligation (Asset) - End of Year	<u><u>\$ 10,059,993</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2015	\$ 2,427,615	43.4%	\$ 10,059,993
6/30/2014	2,314,854	42.6%	8,685,899
6/30/2013	2,344,296	34.4%	7,358,099

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability for benefits was \$21,415,879, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,415,879. The annual payroll for active employees covered by the plan in the actuarial valuation was \$63,812,559 for a ratio of UAAL to covered payroll of 33.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5%, reduced by decrements to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The amortization period at June 30, 2015 was not to exceed 30 years.

Changes in actuarial methods and assumptions in the July 1, 2014 actuarial report from the July 1, 2012 report, such as the reduction of the discount rate from 4.5% to 4.0% and changes in the health care trend rates, resulted in increases to the District's actuarial accrued liability totaling \$1,754,389.

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTE 11 SUPPLEMENTAL PENSION PLAN

The District engaged an actuary to determine the District's liability for its supplemental pension plan in accordance with GASB Statement No. 27, as of July 1, 2014

A. Plan Description

The District provides a single-employer defined benefit supplemental pension benefit to eligible administrators, custodial and maintenance employees, and clerical employees. Currently, the Director of Teaching and Learning, custodians and maintenance employees hired before July 1 of 2012, and clerical employees are eligible to retire and receive the pension supplement after the attainment of age 55 and the completion 15 years of service. Certain administrators and non-affiliated individuals are eligible to retire and receive the pension supplement after the attainment of age 55 and the completion 20 years of service, but recently hired non-affiliated employees no longer receive this pension benefit. The maximum benefit for the Director of Teaching and Learning and non-affiliated individuals is 100 days of pay, while the maximums for qualifying custodians and clerical employees are 30 days and 60 days of pay, respectively.

Currently, there are 444 active employees who are eligible to receive benefits under the plan as of July 1, 2014. The pension benefit ranges from 1 day per year of service times the hourly rate to 5 days per year of service times the hourly rate. Payments are made as lump sum payments. Some contracts also reduce the pension benefits by the total matching contribution made by the District to the employee's qualified retirement account over the course of that individual's employment with the District.

B. Funding Policy

Payments under the plan are made on a pay-as-you go basis. There are no invested plan assets accumulated for payment of future benefits. The General Fund is used for funding of all pension/retirement benefits. The employer makes all contributions.

C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 27. 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 un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual pension cost for the year, the amount actually paid from the plan, and changes in the District's net pension obligation.

Annual Required Contribution	\$	141,489
Interest on Net OPEB Obligation		18,456
Adjustment to Annual Required Contribution		<u>(27,528)</u>
Annual OPEB Cost (Expense)		132,417
Contributions Made		<u>(132,162)</u>
Increase in Net OPEB Obligation		255
Net OPEB Obligation - Beginning of Year		<u>461,412</u>
Net OPEB Obligation (Asset) - End of Year	\$	<u><u>461,667</u></u>

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 SUPPLEMENTAL PENSION PLAN (CONTINUED)

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

The District's annual pension cost, the percentage of the annual pension cost contributed to the plan, and the net pension asset for 2015, 2014 and 2013 was:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2015	\$ 132,417	99.8%	\$ 461,667
6/30/2014	202,924	114.2%	461,412
6/30/2013	205,220	38.1%	490,189

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,027,007. The annual payroll for active employees covered by the plan in the actuarial valuation was \$12,178,451 for a ratio of UAAL to covered payroll of 8.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and salary cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the July 1, 2014, actuarial valuation using the projected unit actuarial cost method. The actuarial assumptions included a 4.0% discount rate, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date and projected salary increases at 3%.

The actuarial methods and assumptions include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level dollar amount of projected payroll. The remaining amortization period at June 30, 2014, is not to exceed 30 years. Changes in actuarial assumptions in the July 1, 2014 actuarial report from the July 1, 2012 report, such as the reduction of the discount rate from 4.5% to 4.0%, resulted in increases to the District's actuarial accrued liability (AAL) totaling \$57,741. Plan changes accounted for \$407,309 in reductions to the District's AAL.

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTE 12 SELF-INSURANCE

The District maintains an Internal Service Fund to account for and finance self-insurance programs for dental benefits. The Internal Service Fund currently services all claims and risk of loss to which the District is exposed for dental costs.

Participants in the program make premium payments to the fund based on the insurance premium determined by the insurance company estimate of monthly claims for each coverage class, plus the stop-loss dental insurance premium costs and administrative charges. The excess amount received above current year claims is used to establish a reserve for future claims. At June 30, 2015, there is a reserve of \$529,932.

District liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

There were no liabilities in excess of claims paid at June 30, 2015. There is a possibility for loss if claims are in excess of the premiums collected. The District does not believe this occurrence would have a material financial effect on the District. The District held \$652,118 in cash and investments at June 30, 2015, for payment of claims.

Changes in the balances of claim liabilities during fiscal years 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Beginning of Fiscal Year Liability - July 1,	\$ 104,682	\$ 90,985
Current Year Claims, Changes in Estimates and Other Charges	1,182,284	1,024,872
Current Year Claims Paid, including an estimate of Claims Incurred but Not Reported (IBNR)	<u>(1,164,780)</u>	<u>(1,011,175)</u>
End of Fiscal Year Liability - June 30,	<u>\$ 122,186</u>	<u>\$ 104,682</u>

**LAKEVILLE AREA PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 13 CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2015, Lakeville Area Public Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, Lakeville Area Public Schools' net position as of June 30, 2014 has been restated to reflect the recognition of the School's proportionate share of the Public Employees' Retirement Association of Minnesota General Employees' Retirement Fund's net pension liability as well as their portion of the Teacher's Retirement Association's Coordinated and Basic Plan net pension liability.

	Governmental Activities
Net Position, June 30, 2014, as Previously Reported	\$ (34,087,695)
Cumulative Affect of Application of GASB 68, Net Pension Liability	(79,457,055)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for District Contributions Made to the Plan During Fiscal Year Ending June 30, 2014	4,634,806
Net Position, June 30, 2014, as Restated	\$ (108,909,944)

NOTE 14 SUBSEQUENT EVENT

On November 24, 2015, the District issued \$2,910,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2015A. The proceeds of this issue will be used to advance refund the 2017 through 2022 maturities of the 2008A General Obligation Alternative facilities Bonds on February 1, 2016. This refunding will result in a net present value debt service savings of \$247,938.

REQUIRED SUPPLEMENTARY INFORMATION

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
SCHEDULES OF FUNDING PROGRESS
JUNE 30, 2015**

Other Post-Employment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ -	\$ 21,415,879	\$ 21,415,879	0.0%	\$ 63,812,559	33.6%
7/1/2012	-	19,128,773	19,128,773	0.0%	61,354,964	31.2%
7/1/2010	-	17,350,474	17,350,474	0.0%	60,193,354	28.8%

Supplemental Pension Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ -	\$ 1,027,007	\$ 1,027,007	0.0%	\$ 12,178,451	8.4%
7/1/2012	-	1,565,270	1,565,270	0.0%	16,063,619	9.7%
7/1/2010	-	1,404,317	1,404,317	0.0%	16,305,687	8.6%

**LAKEVILLE AREA PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 194
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 JUNE 30, 2015**

	<u>Measurement Date 6/30/2014</u>
District's Proportion of the Net Pension Liability	1.0787%
District's Proportionate Share of the Net Pension Liability	\$ 49,705,714
State's Proportionate Share of the Net Pension Liability Associated with District Total	<u>3,496,776</u> <u>\$53,202,490</u>
District's Covered-Employee Payroll	49,242,700
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	100.94%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	81.50%

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 4,015,631	\$ 3,446,989
Contributions in Relation to the Statutorily Required Contribution	<u>(4,015,631)</u>	<u>(3,446,989)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 District's Covered-Employee Payroll	 \$ 53,541,747	 \$ 49,242,700
 Contributions as a Percentage of Covered Employee Payroll	 7.50%	 7.00%

LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
PERA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
JUNE 30, 2015

	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability	0.3121%
District's Proportionate Share of the Net Pension Liability	\$ 14,660,894
District's Covered-Employee Payroll	16,383,683
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	89.48%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	78.70%

**LAKEVILLE AREA PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 194
 PERA SCHEDULE OF SCHOOL CONTRIBUTIONS
 JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 1,223,283	\$ 1,187,817
Contributions in Relation to the Statutorily Required Contribution	<u>(1,223,283)</u>	<u>(1,187,817)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 District's Covered-Employee Payroll	 \$ 16,586,888	 \$ 16,383,683
 Contributions as a Percentage of Covered Employee Payroll	 7.38%	 7.25%

SUPPLEMENTARY INFORMATION

**LAKEVILLE AREA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 194
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2015**

	AUDIT	UFARS	AUDIT-UFARS
01 GENERAL FUND			
Total Revenue	\$ 114,911,090	\$ 114,911,090	\$ -
Total Expenditures	110,106,642	110,106,643	(1)
<i>Nonspendable</i>			
460 Nonspendable Fund Balance	185,338	185,338	-
<i>Restricted/Reserved:</i>			
403 Staff Development	1,181,427	1,181,427	-
405 Deferred Maintenance	-	-	-
406 Health & Safety	79,701	79,701	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
411 Severance Pay	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	79,839	79,839	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 State Approved Alt. Program	-	-	-
438 Gifted & Talented	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
446 First Grade Preparedness	-	-	-
449 Safe Schools Crime	53,472	53,472	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not In Trust	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	1,960,472	1,960,472	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	12,689,994	12,689,994	-
02 FOOD SERVICE			
Total Revenue	5,273,115	5,273,115	-
Total Expenditures	4,982,108	4,982,107	1
<i>Nonspendable:</i>			
460 Nonspendable	83,397	83,397	-
<i>Restricted:</i>			
452 OPEB Liab Not In Trust	-	-	-
464 Restricted Fund Balance	1,654,852	1,654,854	(2)
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	5,667,607	5,667,606	1
Total Expenditures	5,878,786	5,878,786	-
<i>Nonspendable:</i>			
460 Nonspendable	-	-	-
<i>Restricted/Reserved:</i>			
426 \$25 Taconite	-	-	-
431 Community Education	330,347	330,347	-
432 E.C.F.E.	154,829	154,829	-
444 School Readiness	12,407	12,407	-
447 Adult Basic Education	-	-	-
452 OPEB Liab Not In Trust	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	142,169	142,168	1
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

	AUDIT	UFARS	AUDIT-UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	\$ 5,493	\$ 5,492	\$ 1
Total Expenditures	2,545,855	2,545,855	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	4,568,282	4,568,282	-
413 Project Funded by COP	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	15,908,012	15,908,011	1
Total Expenditures	16,058,283	16,058,283	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>			
425 Bond Refundings	-	-	-
451 QZAB Payments	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	3,131,005	3,131,005	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	604,360	604,359	1
Total Expenditures	581,343	581,342	1
422 Net Position	297,174	297,174	-
20 INTERNAL SERVICE			
Total Revenue	1,160,244	1,160,243	1
Total Expenditures	1,182,284	1,182,284	-
422 Net Position	529,932	529,931	1
25 OPEB REVOCABLE TRUST			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Position	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Position	-	-	-
47 OPEB DEBT SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
<i>Nonspendable:</i>			
460 Nonspendable	-	-	-
<i>Restricted:</i>			
425 Bond Refundings	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-