

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2015**

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**JUNE 30, 2015**

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**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**YEAR ENDED JUNE 30, 2015**

**OFFICIAL DIRECTORY**  
(Unaudited)

<b><u>School Board Members and Officers</u></b>	<b>July 1, 2014 to December 31, 2014</b>	<b>January 1, 2015 to June 30, 2015</b>
<b>Chairperson</b>	<b>Carol L. Johnson</b>	<b>Melissa Bahr</b>
<b>Vice-Chairperson</b>	<b>Melissa Bahr</b>	<b>Richard (Bill) Faver</b>
<b>Clerk</b>	<b>Richard (Bill) Faver</b>	<b>Jeff Haack</b>
<b>Treasurer</b>	<b>Jeff Haack</b>	<b>Ann Long Voelkner</b>
<b>Director</b>	<b>Ann Long Voelkner</b>	<b>Carol L. Johnson</b>
<b>Director</b>	<b>John Pugleasa</b>	<b>John Pugleasa</b>
<b><u>Administration</u></b>		
<b>Superintendent</b>	<b>Dr. James Hess Ed.D.</b>	<b>Dr. James Hess Ed.D.</b>
<b>Business Manager</b>	<b>Chris Leinen, J.D.</b>	<b>Chris Leinen, J.D.</b>



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## INDEPENDENT AUDITOR'S REPORT

The Board of Education  
 Independent School District No. 31  
 Bemidji, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Independent School District No. 31 - Bemidji, Minnesota's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

Independent School District No. 31  
Bemidji, Minnesota

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in the fiscal year ended June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the Schedule of Funding Progress for Other Post-Employment Benefit Plans, the Schedule of the District's and Non-Employer Proportionate Share of the Net Pension Liability and the Schedule of District's Contributions on pages 5 through 17 and 55 through 60, respectively, 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 Independent School District No. 31 - Bemidji, Minnesota's basic financial statements. The Official Directory, nonmajor fund financial statements, agency fiduciary fund financial statements, Fiscal Compliance Report and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The nonmajor and agency fiduciary fund financial statements, Fiscal Compliance Report, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the

**Independent School District No. 31  
Bemidji, Minnesota**

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 nonmajor and agency fiduciary fund financial statements, Fiscal Compliance Report, and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Official Directory and statistical section have 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 them.

**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. 31 - Bemidji, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 31 - Bemidji, Minnesota's internal control over financial reporting and compliance.

*Miller McDonald, Inc.*

December 2, 2015  
Bemidji, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

This section of Independent School District No. 31 – Bemidji, Minnesota's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended June 30, 2015 include the following:

- Net position increased by 10% from the prior year.
- District-wide revenues were \$67,921,562 and district-wide expenses were \$66,788,262.
- Total enrollment decreased by 102.98 students or 2% from 5,070.48 to 4,967.50 ADM students.
- General fund balances decreased by \$992,718.
- The District purchased new vehicles in the amount of \$491,276 and land in the amount of \$828,667.
- The District made payments of \$3,110,000 on its outstanding general obligation bonds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

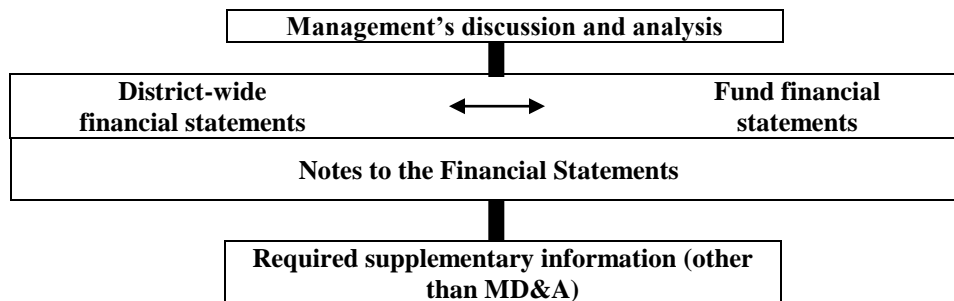
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting on the District's operations in more detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular, vocational and special education were financed in the short-term as well as what remains for future spending.
- *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 whom the resources belong.



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



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

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district except fiduciary funds	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as retiree benefits and student activities
Required financial statements	<ul style="list-style-type: none"> <li>Statement of net position</li> <li>Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>Statement of fiduciary net position</li> <li>Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS** (Continued)

**District-wide Statements**

The district-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 years' revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position is 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 district-wide financial statements the District's activities are shown in one category:

- **Governmental Activities** – The majority of the District's basic services are included within these activities; such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance the majority 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 establishes 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 two types of funds:

**Governmental Funds** – The majority 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 district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS** (Continued)

**Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities (consisting of an irrevocable trust fund and two agency funds held for others) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS)**

**Net Position**

The District's combined net position was \$12,462,568 at June 30, 2015 (see the following table). At June 30, 2014 the net position was \$11,329,268 with an increase of \$1,133,300 from operating activities for the year ended June 30, 2015.

	2015	2014	Net Changes	
			Amount	Percent
Current and other assets	\$ 25,513,698	\$ 27,460,987	\$ (1,947,289)	-7.09%
Capital assets, net of depreciation	61,093,232	61,120,622	(27,390)	-0.04%
<b>Total assets</b>	<b>86,606,930</b>	<b>88,581,609</b>	<b>(1,974,679)</b>	<b>-2.23%</b>
Deferred outflows of resources	6,352,718	2,495,775	3,856,943	154.54%
Current payables	8,072,696	7,585,405	487,291	6.42%
Long-term liabilities:				
Due within one year	3,814,422	3,658,266	156,156	4.27%
Due after one year	49,508,397	60,305,176	(10,796,779)	-17.90%
<b>Total liabilities</b>	<b>61,395,515</b>	<b>71,548,847</b>	<b>(10,153,332)</b>	<b>-14.19%</b>
Deferred inflows of resources	19,101,565	8,199,269	10,902,296	132.97%
Net position:				
Net investment in capital assets	48,458,388	45,600,660	2,857,728	6.27%
Restricted	5,830,233	5,628,521	201,712	3.58%
Unrestricted (Deficit)	(41,826,053)	(39,899,913)	(1,926,140)	4.83%
<b>Total net position</b>	<b>\$ 12,462,568</b>	<b>\$ 11,329,268</b>	<b>\$ 1,133,300</b>	<b>10.00%</b>

Net position increased by 10% for the year ended June 30, 2015.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

**Change in Net Position**

The increase in net position occurs as a result of the District's revenues being more than its expenditures for the year ended June 30, 2015. A summary of the District's revenues and expenses, along with the amount of change and percentages from the year ended June 30, 2014 for each category are as follows:

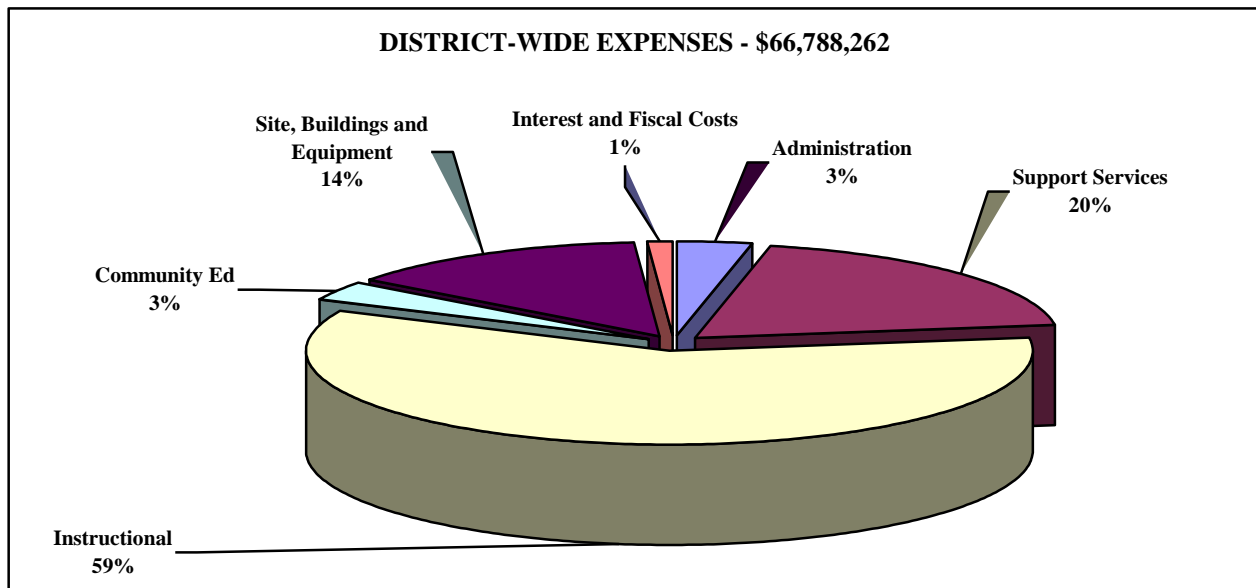
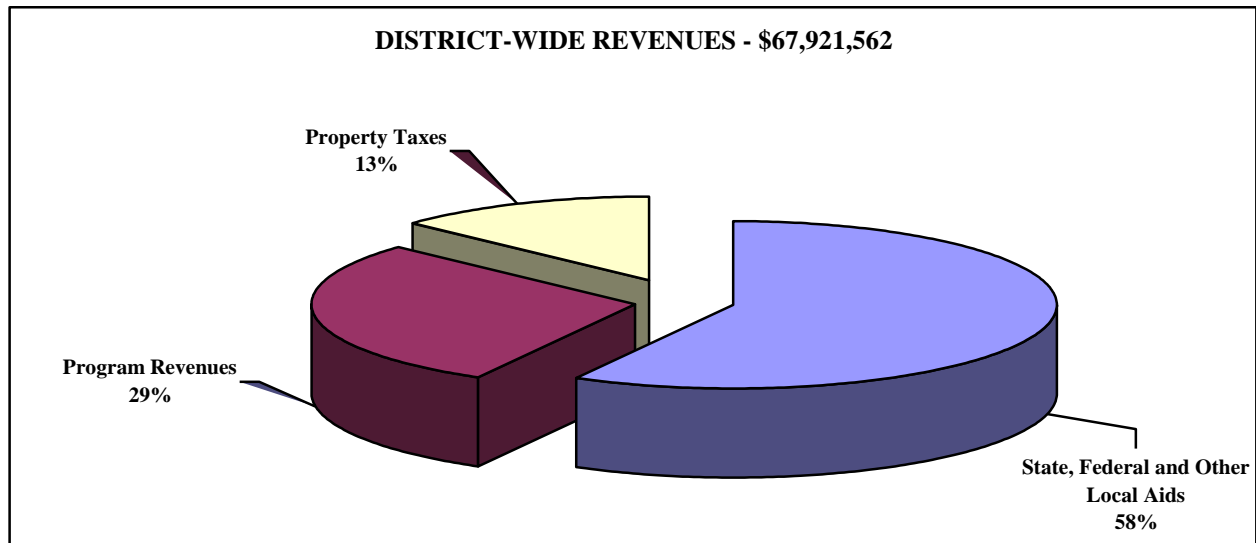
	2015		2014		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<b><u>Revenues:</u></b>						
Program Revenues:						
Charges for Services	\$ 3,295,177	4.85%	\$ 2,777,053	4.29%	\$ 518,124	18.66%
Operating Grants and Contributions	16,274,499	23.96%	20,330,809	31.39%	(4,056,310)	-19.95%
Total Program Revenues	19,569,676	28.81%	23,107,862	35.68%	(3,538,186)	-15.31%
General Revenues:						
Property Taxes	8,877,828	13.07%	7,402,634	11.43%	1,475,194	19.93%
Aids and Payments from State and Federal Sources	39,351,402	57.94%	34,158,960	52.74%	5,192,442	15.20%
Other Sources	122,656	0.18%	93,162	0.14%	29,494	31.66%
Total General Revenues	48,351,886	71.19%	41,654,756	64.32%	6,697,130	16.08%
<b><u>Total Revenues</u></b>	<b><u>67,921,562</u></b>	<b><u>100.00%</u></b>	<b><u>64,762,618</u></b>	<b><u>100.00%</u></b>	<b><u>3,158,944</u></b>	<b><u>4.88%</u></b>
<b><u>Expenses:</u></b>						
Instructional:						
Regular Instruction	25,393,314	38.02%	25,574,949	39.34%	(181,635)	-0.71%
Vocational Instruction	817,227	1.22%	336,746	0.52%	480,481	142.68%
Special Education Instruction	13,267,132	19.86%	12,707,620	19.55%	559,512	4.40%
Total Instructional	39,477,673	59.11%	38,619,315	59.40%	858,358	2.22%
Support Services:						
District Support Services	1,575,364	2.36%	1,423,584	2.19%	151,780	10.66%
Instructional Support Services	2,204,539	3.30%	2,073,411	3.19%	131,128	6.32%
Pupil Support Services	9,276,629	13.89%	9,002,670	13.85%	273,959	3.04%
Total Support Services	13,056,532	19.55%	12,499,665	19.23%	556,867	4.46%
Administration	2,234,010	3.34%	2,142,583	3.30%	91,427	4.27%
Community Education and Services	2,109,980	3.16%	2,298,116	3.54%	(188,136)	-8.19%
Site, Buildings and Equipment	9,109,437	13.64%	8,475,355	13.04%	634,082	7.48%
Fiscal and Other Fixed Costs	238,819	0.36%	240,762	0.37%	(1,943)	-0.81%
Interest on Long-Term Debt	561,811	0.84%	694,422	1.07%	(132,611)	-19.10%
Unallocated Depreciation	-	0.00%	36,500	0.06%	(36,500)	-100.00%
<b><u>Total Expenses</u></b>	<b><u>66,788,262</u></b>	<b><u>100.00%</u></b>	<b><u>65,006,718</u></b>	<b><u>100.00%</u></b>	<b><u>1,781,544</u></b>	<b><u>2.74%</u></b>
<b><u>Changes in Net Position</u></b>	<b><u>\$ 1,133,300</u></b>		<b><u>\$ (244,100)</u></b>		<b><u>\$ 1,377,400</u></b>	

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

For the year ended June 30, 2015, the District's total revenues were \$67,921,562 and consisted of program revenues of \$19,569,676, property taxes of \$8,877,828, general aids and payments from state and federal sources of \$39,351,402, and other sources of \$122,656. Expenses totaling \$66,788,262 consisted of regular, vocational and special education instruction costs of \$39,477,673; district, instructional and pupil support services of \$13,056,532; site, buildings and equipment related costs of \$9,109,437 community education and services costs of \$2,109,980; administrative costs of \$2,234,010; interest on long-term debt of \$561,811, and other costs of \$238,819.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2015:



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**  
**(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)**

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2015 and 2014 are as follows:

	<u>Cost of Services - 2015</u>		<u>Cost of Services - 2014</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
District and School Administration	\$ 2,234,010	\$ 2,234,010	\$ 2,142,583	\$ 1,738,116
District Support Services	1,575,364	1,575,364	1,423,584	1,423,584
Regular Instruction	25,393,314	21,278,537	25,574,949	18,680,981
Vocational Instruction	817,227	762,199	336,746	301,037
Special Education Instruction	13,267,132	3,906,952	12,707,620	4,912,979
Community Education and Services	2,109,980	371,538	2,298,116	161,384
Instructional Support Services	2,204,539	2,143,879	2,073,411	1,367,878
Pupil Support Services	9,276,629	5,861,200	9,002,670	4,961,534
Site, Buildings and Equipment	9,109,437	8,288,329	8,475,355	7,383,887
Fiscal and Other Fixed Costs	238,819	234,767	240,762	236,554
Interest on Long-Term Debt	561,811	561,811	694,422	694,422
Unallocated Depreciation	-	-	36,500	36,500
<b>Total Expenses</b>	<b><u>\$ 66,788,262</u></b>	<b><u>\$ 47,218,586</u></b>	<b><u>\$ 65,006,718</u></b>	<b><u>\$ 41,898,856</u></b>

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

**Fund Balances**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$6,226,701.

Total fund balances decreased in the amount of \$3,044,497 from the end of the prior year. Expenditures exceeded revenues in the General Fund, Debt Redemption Fund, Food Service Fund and Building Construction Fund by \$992,718, \$83,349, \$432,173 and \$1,629,591, respectively. Revenues exceeded expenditures in the Community Service Fund, and OPEB Debt Service Fund by \$66,625, and \$26,709, respectively.

The authority to set aside or "label" funds usually comes from a state or federal ordinance or a school board resolution. Restricting and committing funds is referred to by GASB as "stabilization agreements" in recognition that these funds are not available to spend in the next year in an unrestricted fashion. In the case of the District we have five levels of committed or restricted funds.

The highest level is for "Restricted Funds". These are funds whose purpose is determined by Minnesota Statute. Examples include Staff Development, Deferred Maintenance, Operating Capital, Alternative Programs, Gifted and Talented, Basic Skills, and Safe Schools. At June 30, 2015, our restricted General Fund Balance is \$4,188,424, which is an increase of \$706,404 from the prior year.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

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

The second highest level is "Committed for Specific Purpose", which requires Board action. The "Committed for Separation/Retirement Benefits" fund balance in the General Fund is \$577,793 and represents the next four years of our unfunded liability as calculated in our GASB 16 actuarial analysis. This obligation deals primarily with employee severance agreements contained in negotiated agreements. The total unfunded liability is currently calculated at \$945,022 by Hildi Incorporated. This GASB No. 16 actuarial analysis is performed every two years in addition to our GASB No. 45 calculations.

GASB No. 45 deals mainly with other post-employment retiree health insurance and has been partially funded through a bond issue that was deposited into a Post-Employment Benefits Irrevocable Trust, the current balance of which is \$3,815,249. As of July, 2013, the other post-employment health benefit liability as estimated by our actuaries, Hildi Inc., is \$9,582,643.

The "Non-spendable" fund balance in the General Fund is \$692,593 and is made up of pre-bought inventory in the warehouse and prepaid health insurance expenditures.

The General Fund has no "Assigned" fund balance for the year ended June 30, 2015.

Our fund balance policy requires that we have at least 10% of our General Fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$2,385,680 (including adding back a negative fund balance restricted for health & safety of \$1,281,015) represents 4.7% of our 2015 General Fund expenditures, excluding expenditures for restricted revenue sources, of \$50,574,655 will trigger the actions described above.

New revenue that is already in place from legislative action such as All Day Kindergarten will positively affect the School District in fiscal year 2016, and beyond. New revenue from legislative action providing for local option revenue and board approved referendum revenue will positively affect the School District in fiscal year 2016 and in the future. New revenue sources are coming in 2017 through the American Indian Education Act as well as a new Long Term Facilities Maintenance funding formula.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

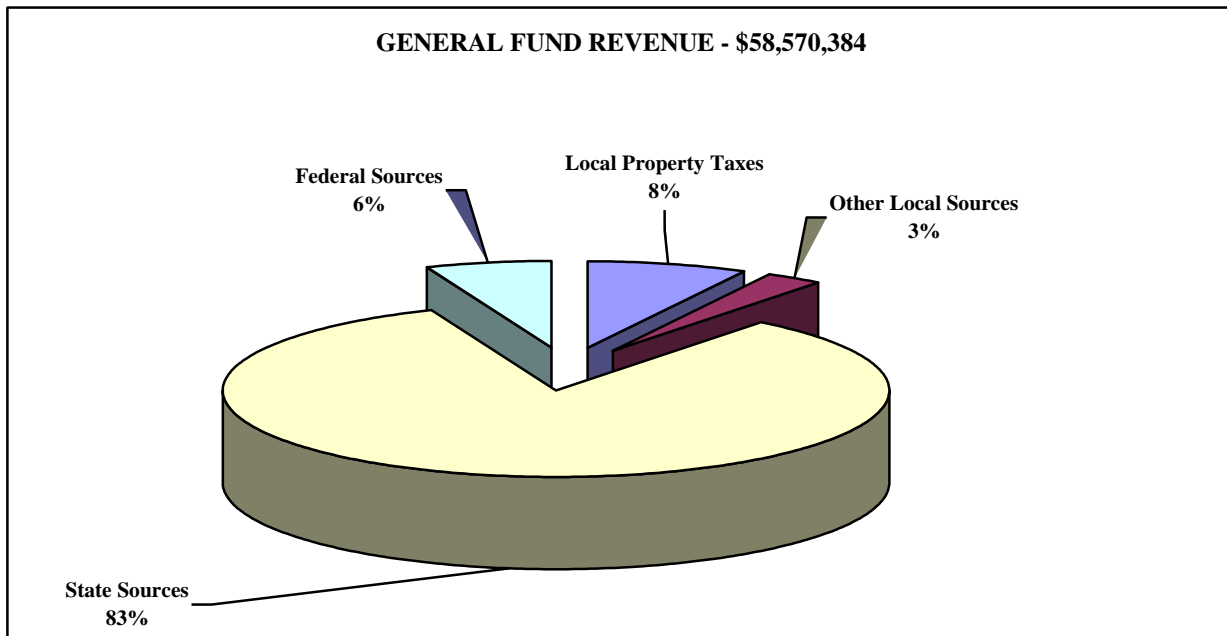
**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$67,900,435 while total expenditures were \$70,944,932. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance Increase (Decrease)</u>
<b>Major Funds:</b>			
General Fund	\$ 58,570,384	\$ 59,563,102	\$ (92,718)
Debt Redemption Fund	3,389,376	3,472,725	(83,349)
<b>Non-major Funds:</b>			
Food Service Fund	3,175,552	3,607,725	(432,173)
Community Service Fund	2,197,424	2,130,799	66,625
Building Construction Fund	-	1,629,591	(1,629,591)
OPEB Debt Redemption Fund	567,699	540,990	26,709
<b>Totals</b>	<u>\$ 67,900,435</u>	<u>\$ 70,944,932</u>	<u>\$ (3,044,497)</u>

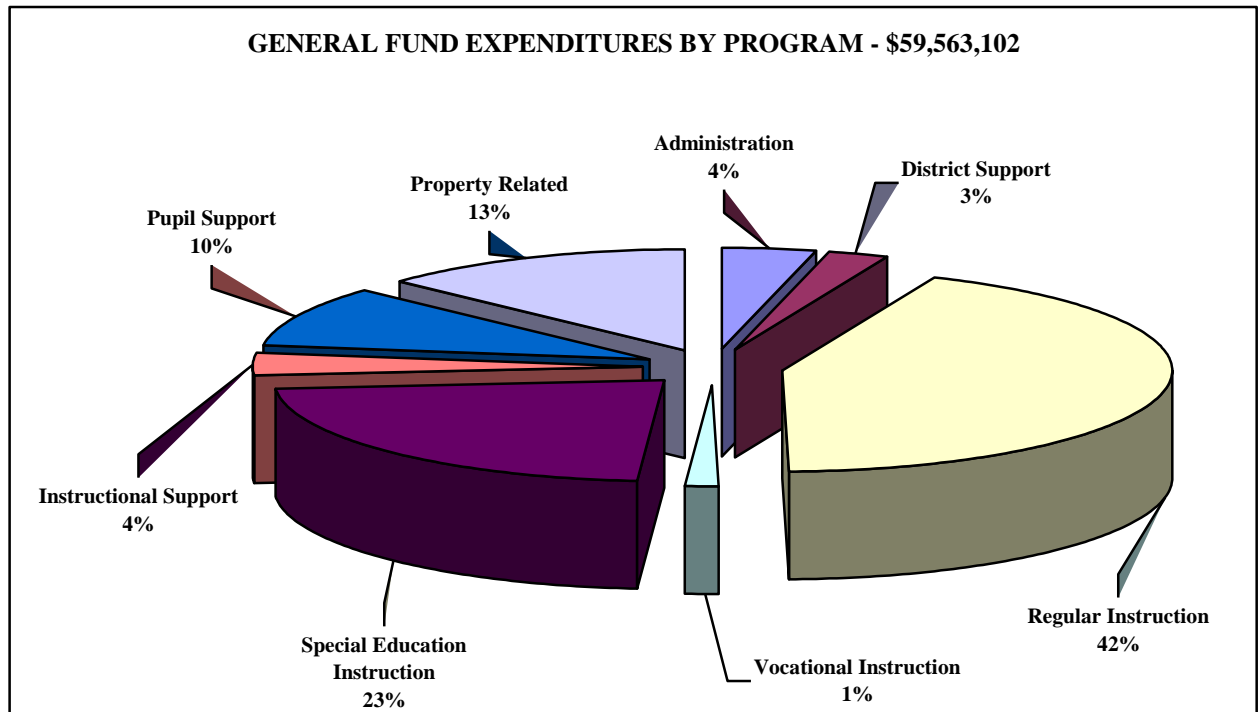
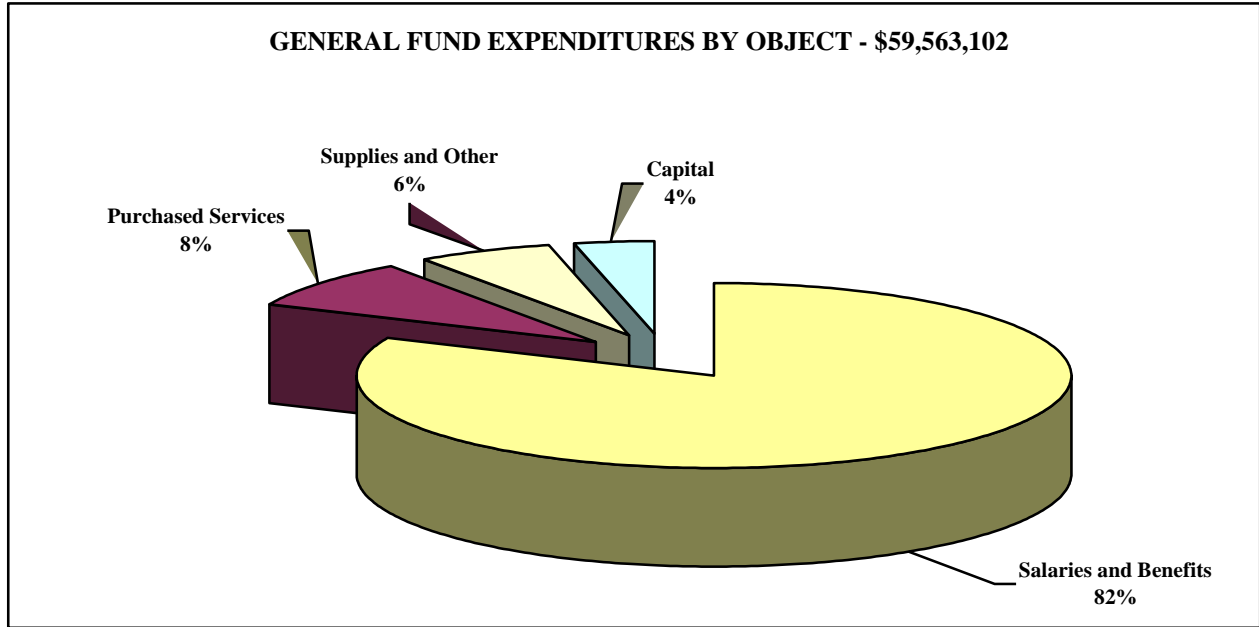
The following graphs are presented for the General Fund revenues and expenditures:





**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

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



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

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

**General Fund Budgetary Highlights**

During the year ended June 30, 2015, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2014, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the state of Minnesota a budget is also an appropriating document. The first revision occurred in the fall of 2014 when enrollment numbers, staffing levels and other significant informational items were more available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

Although the District's General Fund final budget anticipated that expenditures would exceed revenues by \$974,415, the actual results for the year reported expenditures exceeded revenues in the amount of \$992,718. Actual expenditures were \$1,390,445 over the budgeted amount. Revenues exceeded the budgeted amount by \$1,372,142. These variances in the budget were primarily attributed to the following:

- Other local and county revenues and revenues from state sources exceeded budget by \$609,054 and \$678,700, respectively.

The main variances in budgeted versus actual expenditures were as follows:

- Regular instruction was over budget by \$924,656 due to additional classroom sections in kindergarten through the 5<sup>th</sup> grade and efforts to close the achievement gap using additional math specialists.
- Special education instruction was over budget by \$524,372 due to eligible students continue to grow faster than the general increase in school district enrollment. Also, the complexity and severity of special needs requires more personnel than in the past.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During the year the District added \$2,592,381 of capital assets to its inventory records. Additions included \$227,393 of equipment, \$491,276 of transportation vehicles, \$226,421 of building improvements, \$17,700 in land improvements, \$828,667 of land and \$800,924 in new construction. The District disposed of various vehicles with a total original cost of \$336,919.

**Long-Term Debt**

As of June 30, 2015 the District's long-term indebtedness totaled \$53,322,819. This consisted of bonded indebtedness of \$15,810,000, plus net unamortized bond discount and premium of \$1,462,246, capital leases of \$879,840, net pension liability of \$34,225,310 and severance payable of \$945,419. As of June 30, 2015, Other Post-Employment Benefits (OPEB) has a surplus of \$2,771,696 and is included as an asset on the Statement of Net Position.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

During the year the District retired \$3,110,000 of outstanding bond principal and paid \$903,065 of interest and fiscal fees on long-term outstanding bonds payable. The District also paid \$85,118 of total principal on the outstanding capital leases and paid \$49,856 of total interest on the outstanding capital leases. Net pension liability had a decrease of \$7,135,290, severance payable had a net decrease of \$7,067 and the OPEB surplus had a net increase of \$22,871.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

**Political Environment**

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the District receives the single largest state aid, is set at \$5,831 and it will increase to \$5,948 in the next fiscal year. This large increase will be offset by a decrease in secondary pupil weighting factor. The net effect is a 2% overall increase in the main funding formula for FY2016.

**Labor Force**

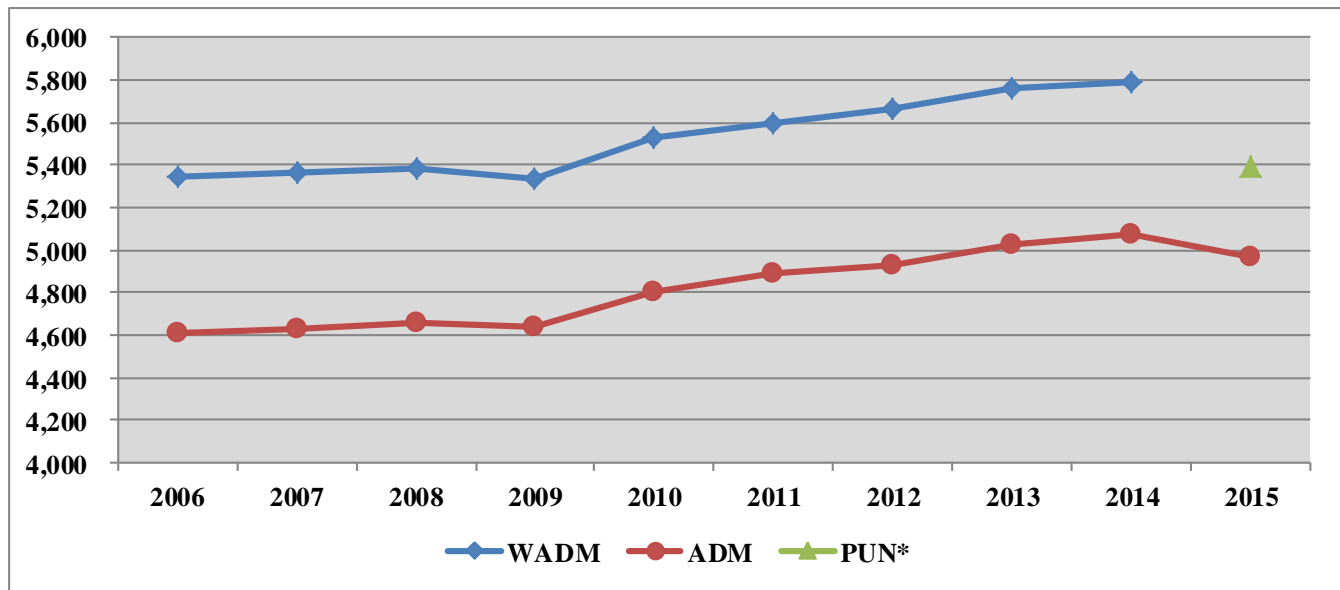
Labor contracts, which are in effect through June 30, 2015, were negotiated for the two-year period beginning July 1, 2013. For the year ended June 30, 2015 salaries, wages and benefits account for 82% of the District's General Fund expenditures.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2015**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)**

**Student Enrollment**

Attendance at all Minnesota school districts including charter schools is based upon Average Daily Membership (ADM), however, the District receives general education aid based upon a Pupil Unit Weightings (PUN); prior to the year ending June 30, 2015, Weighted Average Daily Membership (WADM) was used. The following chart summarizes ADM and PUN/WADM over the past ten years:



\*The State of Minnesota changed to Pupil Unit Weightings (PUN) from Weighted Average Daily Membership (WADM) in the year ending June 30, 2015 to calculate general education aid.

Recent growth patterns are expected to continue as birth rates for the last five years have been up from the previous years.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact Chris Leinen, J.D., Director of Business Services, at District offices located at, 502 Minnesota Ave NW, Bemidji, Minnesota 56601.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

**ASSETS**

Cash and Investments		\$ 11,487,661
Property Taxes Receivable		4,092,019
Due from Other Governmental Units		6,239,022
Other Accounts Receivable		206,304
Inventories		362,150
Prepaid Expenditures		354,846
Other Post-Employment Benefits		2,771,696
Capital Assets:		
Land	\$ 3,736,231	
Construction in Progress	800,924	
Depreciable Capital Assets, Net of Depreciation	<u>56,556,077</u>	<u>61,093,232</u>
 Total Assets		 <u>86,606,930</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources Related to Pensions		<u>6,352,718</u>
--	--	------------------

**LIABILITIES**

Salaries and Wages Payable		4,056,916
Accounts Payable		1,221,951
Interest Payable		250,169
Due to Other School Districts		39,675
Due to Other Governmental Units		500,761
Payroll Deductions and Employer Contributions		684,588
Accrued Compensated Absences Payable		301,419
Unearned Revenue		1,017,217
Long-Term Liabilities:		
Portion Due Within One Year	3,814,422	
Portion Due After One Year	<u>49,508,397</u>	<u>53,322,819</u>
 Total Liabilities		 <u>61,395,515</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources Related to Pensions		10,295,722
Property Taxes Levied for Subsequent Years' Expenditures		<u>8,805,843</u>
 Total Deferred Inflows of Resources		 <u>19,101,565</u>

**NET POSITION**

Investment in Capital Assets		48,458,388
Restricted for:		
State Mandated Programs		4,787,792
Debt Service		1,042,441
Unrestricted (Deficit)		<u>(41,826,053)</u>
 Total Net Position		 <u>\$ 12,462,568</u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Position</u>
<b>Governmental Activities</b>				
District and School Administration	\$ 2,234,010	\$ -	\$ -	\$ (2,234,010)
District Support Services	1,575,364	-	-	(1,575,364)
Regular Instruction	25,393,314	797,323	3,317,454	(21,278,537)
Vocational Instruction	817,227	-	55,028	(762,199)
Special Education Instruction	13,267,132	509,606	8,850,574	(3,906,952)
Community Education and Services	2,109,980	828,983	909,459	(371,538)
Instructional Support Services	2,204,539	-	60,660	(2,143,879)
Pupil Support Services	9,276,629	1,109,073	2,306,356	(5,861,200)
Site, Buildings and Equipment	9,109,437	50,192	770,916	(8,288,329)
Fiscal and Other Fixed Costs	238,819	-	4,052	(234,767)
Interest on Long-Term Debt	561,811	-	-	(561,811)
Total Governmental Activities	<u>\$ 66,788,262</u>	<u>\$ 3,295,177</u>	<u>\$ 16,274,499</u>	<u>(47,218,586)</u>
 <b><u>General Revenues:</u></b>				
<b>Property Taxes:</b>				
Levied for General Purposes				4,586,154
Levied for Community Education and Services				389,055
Levied for Debt Service				3,337,811
Levied for OPEB Debt Service				564,808
Aids and Payments from State and Federal Sources				39,351,402
Unrestricted Investment Earnings				5,270
Other Revenues				<u>117,386</u>
<b>Total General Revenues</b>				<u>48,351,886</u>
 <b><u>Change in Net Position</u></b>				 1,133,300
 <b><u>Net Position - Beginning of Year, as Restated</u></b>				 <u>11,329,268</u>
 <b><u>Net Position - End of Year</u></b>				 <u>\$ 12,462,568</u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash	\$ 5,012,312	\$ 3,083,044	\$ 1,387,553	\$ 9,482,909
Investments	2,004,752	-	-	2,004,752
Property Taxes Receivable	2,155,907	1,509,298	426,814	4,092,019
Due from Other Funds	766,318	-	-	766,318
Due from Other Governmental Units	6,139,112	2,411	97,499	6,239,022
Other Accounts Receivable	192,029	-	14,275	206,304
Inventories	337,747	-	24,403	362,150
Prepaid Expenditures	354,846	-	-	354,846
<b>Total Assets</b>	<b>\$ 16,963,023</b>	<b>\$ 4,594,753</b>	<b>\$ 1,950,544</b>	<b>\$ 23,508,320</b>
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u></b>				
<b><u>Liabilities</u></b>				
Salaries Payable	\$ 3,920,465	\$ -	\$ 136,451	\$ 4,056,916
Accounts Payable	811,738	-	410,213	1,221,951
Due to Other Minnesota School Districts	39,675	-	-	39,675
Due to Other Funds	-	-	766,318	766,318
Due to Other Governmental Units	761	-	500,000	500,761
Payroll Deductions and Employer Contributions	662,156	-	22,432	684,588
Unearned Revenue	990,775	-	26,442	1,017,217
<b>Total Liabilities</b>	<b>6,425,570</b>	<b>-</b>	<b>1,861,856</b>	<b>8,287,426</b>
 <b><u>Deferred Inflows of Resources</u></b>				
Unavailable Revenue - Delinquent Taxes	93,631	76,663	18,056	188,350
Property Taxes Levied for Subsequent Years' Expenditures	4,420,751	3,411,683	973,409	8,805,843
<b>Total Deferred Inflows of Resources</b>	<b>4,514,382</b>	<b>3,488,346</b>	<b>991,465</b>	<b>8,994,193</b>
 <b><u>Fund Balance</u></b>				
Nonspendable	692,593	-	24,403	716,996
Restricted	4,188,424	1,106,407	781,833	6,076,664
Committed	577,793	-	-	577,793
Unassigned (Deficit)	564,261	-	(1,709,013)	(1,144,752)
<b>Total Fund Balance (Deficit)</b>	<b>6,023,071</b>	<b>1,106,407</b>	<b>(902,777)</b>	<b>6,226,701</b>
 <b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	 <b>\$ 16,963,023</b>	 <b>\$ 4,594,753</b>	 <b>\$ 1,950,544</b>	 <b>\$ 23,508,320</b>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 6,226,701</b>
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
 <b>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.</b>		
Cost	\$ 108,153,962	
Accumulated Depreciation	(47,060,730)	
Net Depreciated Value of Capital Assets		61,093,232
 <b>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</b>		
		(250,169)
 <b>The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues.</b>		
		188,350
 <b>Other post-employment benefits (OPEB) are normally reported as long-term liabilities and the liability is amortized over future periods. However, the District has issued bonds to pay for the OPEB liabilities, therefore, the liability is considered as prepaid and reported as an asset in the statement of net position.</b>		
		2,771,696
 <b>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities - both current and long-term are reported in the statement of net position.</b>		
General Obligation Bonds Payable	(15,810,000)	
Net Unamortized Bond Discount/Premium	(1,462,246)	
Capital Lease Payable	(879,844)	
Compensated Absences Payable	(301,419)	
Net Pension Obligation	(34,225,310)	
Severance Payable	(945,419)	
		(53,624,238)
 <b>Deferred outflows and inflows of resource related to pensions are applicable to future periods and, therefore, are not reported in the funds.</b>		
Deferred Outflows of Resources	6,352,718	
Deferred Inflows of Resources	(10,295,722)	
		(3,943,004)
 <b>Total Net Position - Governmental Activities</b>		 <b>\$ 12,462,568</b>

See Accompanying Notes to Financial Statements.



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	General Fund	Debt Redemption	Other Governmental Funds	Totals
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 4,611,165	\$ 3,363,913	\$ 954,405	\$ 8,929,483
Other Local and County Revenues	1,571,110	-	829,333	2,400,443
Revenues from State Sources	48,714,611	24,070	775,603	49,514,284
Revenues from Federal Sources	3,593,238	-	2,275,024	5,868,262
Sales and Other Conversions of Assets	76,796	-	1,105,897	1,182,693
Investment Earnings	3,464	1,393	413	5,270
<b>Total Revenues</b>	<b>58,570,384</b>	<b>3,389,376</b>	<b>5,940,675</b>	<b>67,900,435</b>
<b><u>Expenditures</u></b>				
District and School Administration	2,261,152	-	-	2,261,152
District Support Services	1,568,219	-	-	1,568,219
Regular Instruction	25,748,711	-	-	25,748,711
Vocational Instruction	810,409	-	-	810,409
Special Education Instruction	13,442,976	-	-	13,442,976
Community Education and Services	-	-	2,116,673	2,116,673
Instructional Support Services	2,194,066	-	-	2,194,066
Pupil Support Services	5,817,919	-	3,621,851	9,439,770
Site, Buildings, and Equipment	7,480,831	-	1,629,591	9,110,422
Fiscal and Other Fixed Costs	238,819	-	-	238,819
Debt Service:				
Principal Retirement	-	2,800,000	310,000	3,110,000
Interest and Fiscal Fees	-	672,725	230,990	903,715
<b>Total Expenditures</b>	<b>59,563,102</b>	<b>3,472,725</b>	<b>7,909,105</b>	<b>70,944,932</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(992,718)</b>	<b>(83,349)</b>	<b>(1,968,430)</b>	<b>(3,044,497)</b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b>7,015,789</b>	<b>1,189,756</b>	<b>1,065,653</b>	<b>9,271,198</b>
<b><u>Fund Balances, End of Year</u></b>	<b>\$ 6,023,071</b>	<b>\$ 1,106,407</b>	<b>\$ (902,777)</b>	<b>\$ 6,226,701</b>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Funds \$ (3,044,497)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$ 2,592,381	
Depreciation Expense	<u>(2,619,771)</u>	(27,390)

Deferred delinquent property taxes are not available to pay current period expenditures and, therefore, are deferred in the funds.

Balances at June 30, 2015	188,350	
Balances at June 30, 2014	<u>(240,005)</u>	(51,655)

Interest on long-term debt 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 when it is due.

Accrued Interest at June 30, 2015	(250,169)	
Accrued Interest at June 30, 2014	<u>288,925</u>	38,756

Other Post-Employment Benefits (OPEB) are reported in the statement of activities but does not require the use of current financial resources and therefore, is not reported as an expenditure in the governmental funds.

22,871

Compensated absences consisting of vacation pay is reported in the statement of activities but does not require the use of the current financial resources and therefore, is not reported as an expenditure in the governmental funds.

Compensated Absences at June 30, 2015	(301,419)	
Compensated Absences at June 30, 2014	<u>294,790</u>	(6,629)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the statement of assets. In the current period these amounts consist of:

Bond Principal Retirement	3,110,000	
Capital Lease Payments	85,118	
Net Amortization of Bond Premium/Discount	303,148	
Net Decrease in Severance Payable	<u>7,067</u>	3,505,333

Governmental funds report District pension contributions as expenditures. In the statement of activities, however, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	2,800,010	
Cost of benefits earned net of employee contributions	<u>(2,103,499)</u>	<u>696,511</u>

Change in Net Position of Government Activities \$ 1,133,300

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION -**  
**TRUST AND AGENCY FUNDS**  
**JUNE 30, 2015**

	<b><u>OPEB Irrevocable Trust Fund</u></b>	<b><u>Combined Agency Funds</u></b>
<b><u>ASSETS</u></b>		
Cash and Investments	\$ 3,785,707	\$ 681,661
Accrued Interest Receivable	29,542	-
	<hr/>	<hr/>
<b><u>Total Assets</u></b>	<b><u>\$ 3,815,249</u></b>	<b><u>\$ 681,661</u></b>
<b><u>LIABILITIES</u></b>		
Accounts Payable	\$ -	\$ 288,133
Due to Organizations	-	393,528
	<hr/>	<hr/>
<b><u>Total Liabilities</u></b>	<b><u>-</u></b>	<b><u>\$ 681,661</u></b>
<b><u>NET POSITION</u></b>		
Net Position Held in Trust	<b><u>\$ 3,815,249</u></b>	

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -**  
**TRUST FUND**  
**YEAR ENDED JUNE 30, 2015**

	<b><u>OPEB Irrevocable Trust Fund</u></b>
<b><u>Additions:</u></b>	
Investment Earnings	<b><u>\$ 40,749</u></b>
<b><u>Deductions:</u></b>	
Employee Benefits	<b><u>497,291</u></b>
<b><u>Change in Net Position</u></b>	<b><u>(456,542)</u></b>
<b><u>Net Position - Beginning of Year</u></b>	<b><u>4,271,791</u></b>
<b><u>Net Position - End of Year</u></b>	<b><u>\$ 3,815,249</u></b>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies**

The financial statements of Independent School District No. 31 have been prepared in conformity with U. S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2015. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

**A. Reporting Entity**

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

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for component units include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of 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 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.

**B. Financial Statement Presentation**

The district-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for fiduciary funds. The fiduciary funds are only reported in the Statement 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses. 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 capital requirements of a particular function or segment. Operating grants include operating-specific grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

The District applies restricted resources first when an expense is incurred for purposes 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.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the district-wide financial statements. There was inter-fund activity to eliminate negative cash balances in the Building Construction Fund with the General Fund.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

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

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2014 payable 2015 levy has been recognized as revenue during the current year, as discussed in Note 4.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Other revenues are recognized when susceptible to accrual, i.e., when they become both 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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Description of Funds**

The existence of the various District funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. A description of the major governmental funds and fiduciary funds in this report are as follows:

**Governmental Funds**

**General Fund** – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the District, which are not accounted for in other District funds.

**Debt Redemption Fund** – Accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

**Fiduciary Funds**

**Trust 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.

**Post-Employment Benefits Irrevocable Trust Fund** – The District is the trustee, or fiduciary, for assets set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund are expensed to the General, Food Service or Community Service Funds.

**Agency Funds** – Account for assets held solely in a custodial capacity.

All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Additionally, the District reports the following aggregated non-major funds:

**Special Revenue Funds** – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

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

**Community Service Fund** – Accounts for the revenues and expenditures related to recreation, public use of school facilities, non-public pupils, adult education programs, and early childhood and family development.

**OPEB Debt Service Fund** – Accounts for the accumulation of resources for the payment of OPEB bonds principal, interest and related costs.

**Building Construction Fund** – Accounts for the acquisition or construction of major capital assets, generally financed through the issuance of general long-term debt.

**D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, Net Position and Fund Balances**

**Cash and Investments** - Cash balances for all funds, including cash equivalents, but excluding fiduciary funds, are maintained on a combined basis and invested, to the extent possible, in allowable investments. The District's general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term 'nonparticipating' means that the investment's value does not vary with market interest rate changes.

**Property Taxes Receivable** - represents current and delinquent taxes receivable at June 30, 2015. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivables are taxes collectible for the 2008 through 2014 calendar years that remain uncollected.

**Due From Other Governmental Units** - are amounts due from other governmental units that consist of amounts primarily due from the other Minnesota school districts, Hubbard County, the Minnesota Department of Education and from the Federal Government through the Minnesota Department of Education for state and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

**Inventories** - consist of purchased food commodities, supplies and donated United States Department of Agriculture (USDA) commodities. Purchased food and supplies are recorded at the lower of cost (first-in, first-out) or market method. The donated USDA commodities are stated at standardized cost as determined by the USDA. Inventories in the general fund consist of school supplies.



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures at the time of consumption.

**Capital Assets** - are capitalized at historical cost, or estimated historical cost based on an inventory dated June 30, 2002. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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

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

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

**Unearned Revenue** - represents revenues, other than property taxes, collected before they are earned.

**Deferred Outflows of Resources** – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the deferred resources related to pensions reported in the government-wide statement of net position.

**Deferred Inflows of Resources** – In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category: property taxes levied for subsequent years, delinquent property taxes receivable, and deferred resources related to pensions.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

The first item is property taxes levied for subsequent year's expenditures, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent year's expenditures are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

**Deferred Outflows and Inflows Related to 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 the 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 PERA's purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

**Fund Balance** - The following classifications describe the relative strength of the spending constraints placed on a government's fund balances:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid or prepaid items) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

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

Fund balance policy requires that at least 10% of the General Fund operating budget is a combination of committed, assigned and unassigned fund balances. If the amount is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$2,385,680 (including adding back a negative fund balance restricted for health & safety of \$1,281,015) represents 4.7% of the 2015 general fund expenditures of \$50,574,655 and therefore will trigger the actions described above.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Totals
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventory	\$ 337,747	\$ -	\$ 24,403	\$ 362,150
Prepaid Expenses	354,846	-	-	354,846
<b>Restricted:</b>				
Staff Development	319,911	-	-	319,911
Deferred Maintenance	109,976	-	-	109,976
Operating Capital	2,464,814	-	-	2,464,814
State Approved Alternative Program	597,065	-	-	597,065
Gifted and Talented	94,288	-	-	94,288
Teacher Development and Evaluation	117,624	-	-	117,624
Basic Skills	174,957	-	-	174,957
Safe Schools - Crime Levy	309,789	-	-	309,789
Food Service	-	-	409,669	409,669
Early Childhood and Family Education	-	-	256,551	256,551
School Readiness	-	-	32,504	32,504
Adult Basic Education	-	-	8,398	8,398
OPEB Debt Service	-	-	74,711	74,711
Debt Service	-	1,106,407	-	1,106,407
<b>Committed:</b>				
Separation/Retirement Benefits	577,793	-	-	577,793
<b>Unassigned</b>	564,261	-	(1,709,013)	(1,144,752)
<b>Totals</b>	<u>\$ 6,023,071</u>	<u>\$ 1,106,407</u>	<u>\$ (902,777)</u>	<u>\$ 6,226,701</u>

**E. Compensated Absences**

**Vacation Pay** – Certified staff and certain administrative employees do not receive paid vacations but are paid only for the number of days they are required to work, each in accordance with their respective contracts. Non-certified and other administrative employees are allowed vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Accrued vacation time must be taken within one year after the end of the fiscal year. Compensated absences payable for the amount representing the accumulated vacation payable at June 30, 2015 for these employees is reported in the district-wide financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Sick Leave and Severance Pay** – Employees are allowed to accrue sick leave at varying amounts each year, and accumulate within limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Upon completion of 15 years of service and notice of retirement for teaching staff and certain other employee groups, unused sick leave is convertible to severance pay upon an employee's retirement. Severance is not granted to an employee who is discharged by the District. See Note 11 for severance liability amount.

Under the provisions of the various employee and union contracts the District provides health and dental care coverage until age 65 for retirees and if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums paid for active employees are funded on a pay-as-you-go basis. Retiree costs, net of retiree contributions, are funded through an OPEB Irrevocable Trust Fund.

**F. Use of Estimates**

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

**G. Change in Accounting Principle**

During the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 recognizes the District's portion of net pension liability and related deferrals associated with their defined benefit pension plans. GASB Statement No. 71 recognizes a beginning deferred outflow of resources in the year GASB No. 68 is implemented.

**NOTE 2 – Stewardship, Compliance, Accountability**

**Expenditures in Excess of Budget**

Actual expenditures exceeded budget in the amount of \$1,390,445 for the year ended June 30, 2015 in the General Fund. This overage was considered by School Management to be the result of necessary expenditures critical to operations and was approved by the School Board.

**Fund Balance Deficits**

The Building Construction Fund had a deficit fund balance at June 30, 2015 of \$1,629,591. The fund balance deficit will be eliminated either by future revenue sources or operating transfers.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 3 – Deposit and Investments**

The District’s cash and investments are as follows:

	<u>Governmental Activities/ Funds</u>	<u>OPEB Irrevocable Trust Fund</u>	<u>Agency Funds</u>
<b>Pooled Depository Accounts:</b>			
Checking	\$ 1,932,291	\$ (497,291)	\$ -
Savings	101,936	-	-
Student Activity Depository Accounts - Checking and Money Market	-	-	393,528
Pooled Investments - MSDLAF+	9,453,434	-	-
Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	-	288,133
<b>Investments with MN Trust and Associated Wealth Management:</b>			
MNTrust Money Market Account	-	665,170	-
Certificates of Deposit	-	2,804,620	-
Municipal Bonds	-	813,208	-
<b>Total Cash and Investments</b>	<u><u>\$ 11,487,661</u></u>	<u><u>\$ 3,785,707</u></u>	<u><u>\$ 681,661</u></u>

**A. Deposits**

**Authority** - In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District 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 bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk** - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2015.

**B. Investments**

**Authority** - Minnesota Statutes authorize the District to invest in the following types of investments:

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 3 – Deposit and Investments (Continued)**

3. General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers' acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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

<u>Investments</u>	<u>Credit Risk</u>		<u>Interest Risk - Maturity Duration in Years:</u>			<u>Total</u>
	<u>Rating</u>	<u>Agency</u>	<u>Less than 1</u>	<u>1 to 3</u>	<u>Over 3</u>	
Certificates of Deposit	N/A	N/A	\$ 400,881	\$ 1,649,948	\$ 753,791	\$ 2,804,620
<b>Investment Pool:</b>						
MSDLAF+ - Money Market Accounts	AAAm	S&P				9,741,567
MN Trust - Money Market Accounts	AAAm	S&P				665,170
<b>Municipal Bonds:</b>						
Centerville, Minnesota Bonds	AA	S&P	-	274,669	-	274,669
Glendale Heights, Illinois Bonds	AA	S&P	538,539	-	-	538,539
<b>Total Investments</b>						<u>\$ 14,024,565</u>

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

**Interest Rate Risk** – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

**Credit Risk** – State law limits investments in general obligations of any state or local government with taxing powers with a rating of "A" or better by a national bond rating service. The District's Municipal Bond investments meet state criteria.

**Concentration of Credit Risk** – The District places no limit on the amount the District may invest in any one issuer. The District has total investments of \$4,282,998 in the OPEB Irrevocable Trust Fund. All of the individual municipal bonds exceed 5% of total investments.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
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**NOTE 4 – Property Taxes**

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15, and October 15. The County provides tax settlements in installments to districts two times a year, on or before June 30 and December 30.

Prior year's taxes, which remain unpaid at June 30, are classified as delinquent taxes receivable and the portion not receivable within 60 days is offset by deferred revenue because they are not available to finance current expenditures.

The maximum amount of property taxes the District may levy is subject to state levy limitations.

The total net tax capacity for levy year 2014 (payable in 2015) was \$30,639,275 with a referendum market value of \$2,314,152,101. The net capacity rate was 19.777% and a school district referendum rate of 0.13333%.

Current property taxes receivable consist of the current tax levy less collection prior to June 30. The current tax levy, net of a state mandated property tax shift, is offset by property taxes levied for subsequent years, a deferred inflow of resources.

**NOTE 5 – Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2015 are as follows:

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Redemption</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Other Minnesota School Districts	\$ 434,898	\$ -	\$ 1	\$ 434,899
Minnesota Department of Education:				
State Aids and Grants	4,427,044	2,411	58,765	4,488,220
Federal Aids and Grants	1,266,113	-	38,733	1,304,846
Other Governmental Units	11,057	-	-	11,057
Totals	<u>\$ 6,139,112</u>	<u>\$ 2,411</u>	<u>\$ 97,499</u>	<u>\$ 6,239,022</u>



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
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**NOTE 6 – Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
<b>Non-depreciable Capital Assets</b>				
Land	\$ 2,907,564	\$ 828,667	\$ -	\$ 3,736,231
Construction in Progress	24,500	800,924	24,500	800,924
<b>Total Non-depreciable Capital Assets</b>	<u>2,932,064</u>	<u>1,629,591</u>	<u>24,500</u>	<u>4,537,155</u>
<b>Depreciable Capital Assets:</b>				
Land Improvements	3,741,682	17,700	-	3,759,382
Buildings	87,458,664	250,921	-	87,709,585
Equipment	11,766,091	718,669	336,919	12,147,841
<b>Total Depreciable Capital Assets</b>	<u>102,966,437</u>	<u>987,290</u>	<u>336,919</u>	<u>103,616,808</u>
<b>Total Capital Assets</b>	<u>105,898,501</u>	<u>2,616,881</u>	<u>361,419</u>	<u>108,153,963</u>
<b>Accumulated Depreciation:</b>				
Land Improvements	2,174,670	139,491	-	2,314,161
Buildings	34,082,635	1,756,344	-	35,838,979
Equipment	8,520,574	723,936	336,919	8,907,591
<b>Total Accumulated Depreciation</b>	<u>44,777,879</u>	<u>2,619,771</u>	<u>336,919</u>	<u>47,060,731</u>
<b>Capital Assets, Net of Depreciation</b>	<u>\$ 61,120,622</u>	<u>\$ (2,890)</u>	<u>\$ 24,500</u>	<u>\$ 61,093,232</u>

Depreciation expense was charged to the following program services:

District Support Services	\$ 7,589
Regular Instruction	12,485
Vocational Instruction	12,091
Special Education Instruction	2,246
Instructional Support Services	7,351
Pupil Support Services	539,409
Site, Buildings and Equipment	2,038,600
Total	<u>\$ 2,619,771</u>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
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**NOTE 7 – Pension Plans**

**A. Teachers Retirement Association**

**Plan Description**

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

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

**Benefits Provided**

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

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

**Tier I Benefits:**

	<b><u>Step Rate Formula</u></b>	<b><u>Percentage</u></b>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

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

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**NOTE 7 – Pension Plans (Continued)**

- b) 3 percent per year early retirement reduction factor for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

**Tier II Benefits**

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

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

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

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

**Contribution Rate**

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

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

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

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**NOTE 7 – Pension Plans (Continued)**

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

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

**Actuarial Assumptions**

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

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

**Actuarial Information**

Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.0% until year 2034; 2.5% thereafter

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

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**NOTE 7 – Pension Plans (Continued)**

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

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

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

**Discount Rate**

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

**Net Pension Liability**

On June 30, 2015, the District reported a liability of \$23,717,005 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.5147% at the end of the measurement period and 0.5087% for the beginning of the year.

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**NOTE 7 – Pension Plans (Continued)**

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

District's proportionate share of net pension liability	\$ 23,717,005
State's proportionate share of the net pension liability associated with the District	1,668,434

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. The Contribution Rates section contains the rate information.

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

For the year ended June 30, 2015, the District recognized pension expense of \$1,327,362. It also recognized \$72,782 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,023,703	\$ -
Net difference between projected and actual earnings on plan investments	-	7,456,387
Changes in proportion	284,750	-
Contributions paid to TRA subsequent to the measurement date	1,884,490	-
<b>Total</b>	<b><u>\$ 4,192,943</u></b>	<b><u>\$ 7,456,387</u></b>

\$1,884,490 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to TRA pensions will be recognized in pension expense as follows:

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**NOTE 7 – Pension Plans (Continued)**

2016	\$ (1,382,165)
2017	(1,382,165)
2018	(1,382,165)
2019	(1,382,165)
2020	380,726

**Pension Liability Sensitivity**

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

District proportionate share of NPL		
1 percent decrease	Current	1 percent increase
<u>(7.25%)</u>	<u>(8.25%)</u>	<u>(9.25%)</u>
\$39,196,088	\$23,717,005	\$10,812,802

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

**Pension Plan Fiduciary Net Position**

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

**B. Public Employees Retirement Association**

**Plan Description**

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

**General Employees Retirement Plan (GERF)**

All full-time and certain part-time employees other than teachers of the District 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.

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**NOTE 7 – Pension Plans (Continued)**

**Benefits Provided**

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

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

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

**GERF Benefits**

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

**Contributions**

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

**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, 2014 were \$851,304.



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**NOTE 7 – Pension Plans (Continued)**

**Pension Costs**

**GERF Pension Costs**

At June 30, 2015, the District reported a liability of \$10,508,305 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.2237%.

For the year ended June 30, 2015, the District recognized pension expense of \$780,087 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:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 161,270	\$ -
Changes in actuarial assumptions	1,082,985	-
Net difference between projected and actual earnings on plan investments	-	2,839,335
Contributions paid to PERA subsequent to the measurement date	<u>915,520</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 2,159,775</u></b>	<b><u>\$ 2,839,335</u></b>

\$915,520 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to GERF pensions will be recognized in pension expense as follows:

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 – Pension Plans (Continued)**

2016	\$	(295,082)
2017		(295,082)
2018		(295,083)
2019		(709,833)

**Actuarial Assumptions**

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

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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

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

The following changes in actuarial assumptions occurred in 2014:

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

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

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**BEMIDJI, MINNESOTA**  
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**NOTE 7 – Pension Plans (Continued)**

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

**Discount Rate**

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

**Pension Liability Sensitivity**

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

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
District's proportionate share of the GERS net pension liability:	\$16,939,812	\$10,508,305	\$5,216,688

**Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://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.

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**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 8 – Other Post-Employment Benefits**

The District's has engaged an actuary to determine the District's liability for post-employment healthcare benefits other than pensions and its plan is as follows:

**A. Plan Description**

The District operates a single employer retiree benefit plan for both health and dental insurance in which retiring employees and their spouses may participate in at their expense. Retiring employees are eligible to participate only if they are a participant in the District's health and dental insurance at the time of retirement. As of July 1, 2014, there are 842 active participants and 67 retired participants and 13 spouses of retired participants. The retired employees are responsible for reimbursing the District for 100% of the premium cost for their health and dental plans. If a retiree chooses to drop their participation in either plan they are not able to return to the plan. Upon the death of a retiree the retiree's spouse can continue participation only if the spouse was covered under the plan at the time of the retiree's death.

**B. Funding Policy**

Retirees' who participate in the District's health and/or dental insurance plan pay 100% of their premium cost(s). There is no district contribution; however, as calculated in the District's actuarial study there is an implicit rate subsidy cost to the district as a result of retiree's participating in the health and dental plans. The implicit rate subsidy cost calculation is based on a set of input data to determine the implied cost effect to the district for retiree participation. Per the actuarial study performed the District's implicit rate subsidy cost as of July 1, 2014 was \$341,803.

**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	\$ 827,831
Interest on Net OPEB Obligation	(99,754)
Adjustment to Annual Required Contribution	<u>167,157</u>
Annual OPEB Cost (Expense)	895,234
Contributions Made	<u>(341,803)</u>
Increase in Net OPEB Obligation	553,431
Net OPEB Obligation (Surplus) - Beginning of Year	(2,748,825)
Adjustment to the Net OPEB Obligation as of June 30, 2014	<u>(576,302)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (2,771,696)</u></u>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 8 – Other Post-Employment Benefits (Continued)**

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

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u> <u>(Surplus)</u>
6/30/2013	\$ 811,914	\$ 519,296	64.0%	\$ (3,647,876)
6/30/2014	899,051	-	0.0%	(2,748,825)
6/30/2015	895,234	341,803	38.2%	(2,771,696)

**D. Funded Status and Funding Progress**

As of July 1, 2013, the most recent actuarial valuation date, the District’s unfunded actuarial accrued liability (UAAL) was \$5,153,928. The annual payroll for active employees covered by the plan in the actuarial valuation was \$33,112,290 for a ratio of UAAL to covered payroll of 15.57%.

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 effect 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, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), 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 five years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 9 – Operating Leases**

The District has entered into operating lease agreements as follows:

<u>Lessee</u>	<u>Program</u>	<u>End Date</u>	<u>Annual Rent</u>
Beltrami County	ECFE & ECSE	June 30, 2015	\$ 111,078
Nonprofit entity	AEC, Home Based EC	June 30, 2016	37,012
White Earth Band of Ojibwe Indians	Sober School	June 30, 2015	16,284
Nonprofit entity	Boys & Girls Hockey	June 30, 2015	26,400
Bemidji State University	Facilities Lease	August 31, 2018	40,000

**NOTE 10 – Capital Leases**

A summary of changes in the capital leases is a follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
Wells Fargo Bank	\$ 890,520	\$ -	\$ 61,117	\$ 829,403
John Deere Financial	74,442	-	24,001	50,441
<b>Total Capital Leases</b>	<b>\$ 964,962</b>	<b>\$ -</b>	<b>\$ 85,118</b>	<b>\$ 879,844</b>

The District's capital lease assets total \$1,230,774 with accumulated depreciation of \$122,707.

The payments on the capital leases are accounted for in the General Fund. The annual requirements to amortize the capital leases at June 30, 2015 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2016	\$ 89,274	\$ 45,700	\$ 134,974
2017	93,641	41,334	134,975
2018	71,732	36,747	108,479
2019	75,665	32,813	108,478
2020	79,814	28,665	108,479
2021-2025	469,718	72,677	542,395
<b>Totals</b>	<b>\$ 879,844</b>	<b>\$ 257,936</b>	<b>\$ 1,137,780</b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 11 - Long-Term Liabilities**

A summary of changes in long-term liabilities is as follows:

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
<b>General Obligation Bonds:</b>						
2009A Taxable OPEB Bonds	\$ 4,365,000	\$ -	\$ 310,000	\$ 4,055,000	\$ 325,000	\$ 214,840
2013A G. O. Bonds	14,555,000	-	2,800,000	11,755,000	2,915,000	558,600
Total General Obligation Bonds	18,920,000	-	3,110,000	15,810,000	3,240,000	773,440
Unamortized Bond Discounts	(145,790)	-	(25,352)	(120,438)	(25,352)	-
Unamortized Bond Premium	1,911,184	-	328,500	1,582,684	328,500	-
Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium	20,685,394	-	3,413,148	17,272,246	3,543,148	773,440
<b>Capital Leases Payable (See Note 10):</b>						
Wells Fargo	890,519	-	61,117	829,402	64,469	44,010
John Deere Financial	74,443	-	24,001	50,442	24,805	1,690
Total Capital Leases Payable	964,962	-	85,118	879,844	89,274	45,700
<b>Separation and Retirement Benefits:</b>						
Net Pension Liability	41,360,600	-	7,135,290	34,225,310	-	-
Other Post-Employment Benefits	(2,748,825)	553,431	576,302	(2,771,696)	-	-
Severance Payable	952,486	174,292	181,359	945,419	182,000	-
Total Separation and Retirement Benefits	39,564,261	727,723	7,892,951	32,399,033	182,000	-
Total	\$ 61,214,617	\$ 727,723	\$ 11,391,217	50,551,123	\$ 3,814,422	\$ 819,140
Add-back Net Post-Employment Benefits Reported as an Asset				2,771,696		
Total Long-Term Liabilities				\$ 53,322,819		

General obligation bonds are comprised of the following individual issues at June 30, 2015:

**\$4,950,000 General Obligation Taxable OPEB Bonds, Series 2009A, issued on July 15, 2009, with interest rates ranging from 5.00% to 5.750%. Interest payments commence on February 1, 2010 and are due each February 1 and August 1 thereafter through year 2025. Principal payments commence on February 1, 2013 and each year thereafter through 2025 in amounts ranging from \$285,000 to \$505,000.**

**\$17,180,000 General Obligation Refunding Bonds, Series 2013A, issued on February 26, 2013 with interest rates ranging from 3.50% to 4.50%. Interest payments commence on October 1, 2013 and are due each April 1 and October 1 thereafter through April 2019. Principal payments commence on April 1, 2014 and each year thereafter through 2019 in amounts ranging from \$2,625,000 to \$3,090,000.**

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 11 - Long-Term Debt (Continued)**

The annual requirements to amortize the general obligation bonds at June 30, 2015 are as follows:

<u>Fiscal Year Ended</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2016	\$ 3,240,000	\$ 773,440	\$ 4,013,440
2017	3,140,000	640,590	3,780,590
2018	3,300,000	483,590	3,783,590
2019	3,460,000	318,590	3,778,590
2020	390,000	145,590	535,590
2021-2025	2,280,000	512,565	2,792,565
Totals	<u>\$ 15,810,000</u>	<u>\$ 2,874,365</u>	<u>\$ 18,684,365</u>

General obligation bonds of the District are reflected in the district-wide financial statements and current requirements for principal and interest expenditures of the 2013A bond issue is paid out of the debt service fund. The current requirements for principal and interest expenditures of the 2009 OPEB bond issue are accounted for in a separate debt service fund.

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions and there were authorized and un-issued bonds at June 30, 2015; see Note 15.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2015. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2013. Estimated additions and subtractions from that estimate have occurred since that date.

**NOTE 12 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The District carries various commercial insurance policies covering workers' compensation personal property, commercial liability and automobile liability. There were no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**NOTE 13 - Commitments and Contingencies**

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collection of any related receivable at June 30, 2015 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2015**

**NOTE 14 – Restatement of Net Position**

Effective July 1, 2014, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of this implementation, the District has restated previously reported net position in the governmental activities decreasing it \$38,864,825 from \$50,194,093 to \$11,329,268.

**NOTE 15 – Subsequent Events**

On November 4, 2014, the District's voters approved a referendum to authorize a new bond issue in the amount up to \$39,815,000. The bond issue will provide funding to construct and operate a new elementary school and provide a new HVAC system at the Bemidji Middle School. On November 16, 2015, the School Board approved bond bids for the project. Good faith estimates were deposited into the account of the District in the amount of \$398,150 on November 16, 2015.

On July 31, 2015 the purchase agreement dated March 4, 2015 for the sale of the Deer Lake School was cancelled by the buyer. Subsequent to the cancellation date the District entered into a purchase agreement with a new buyer for the sale of the Deer Lake School in the amount of \$500,000. This is scheduled to close on February 15, 2016.

The District entered into an agreement which obligated the District to extend water and sewer as well as demolish a building on an adjacent piece of property to one the District purchased. In April of 2015, the cost to the District would be approximately \$125,000. Subsequent to the year end, the building site was deemed unsuitable for the District's purposes and the District is selling the property back to the previous owner. As part of this transaction, the District will be relieved of the obligation to extend water and sewer and the demolition of the building on the adjacent property.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 5,091,812	\$ 4,649,548	\$ 4,611,165	\$ (38,383)
Other Local and County Revenues	1,292,674	962,056	1,571,110	609,054
Revenues from State Sources	46,762,877	48,035,911	48,714,611	678,700
Revenues from Federal Sources	3,730,831	3,514,149	3,593,238	79,089
Sales and Other Conversions of Assets	22,133	32,133	76,796	44,663
Investment Earnings	4,445	4,445	3,464	(981)
<b>Total Revenues</b>	<b>56,904,772</b>	<b>57,198,242</b>	<b>58,570,384</b>	<b>1,372,142</b>
<b><u>Expenditures</u></b>				
District and School Administration	2,141,041	2,141,345	2,261,152	(119,807)
District Support Services	1,461,791	1,477,822	1,568,219	(90,397)
Regular Instruction	25,322,488	24,824,055	25,748,711	(924,656)
Vocational Instruction	600,895	934,164	810,409	123,755
Special Education Instruction	12,237,568	12,918,604	13,442,976	(524,372)
Instructional Support Services	2,413,337	2,255,662	2,194,066	61,596
Pupil Support Services	5,651,116	5,756,885	5,817,919	(61,034)
Site, Buildings and Equipment	7,603,827	7,675,047	7,480,831	194,216
Fiscal and Other Fixed Costs	189,073	189,073	238,819	(49,746)
<b>Total Expenditures</b>	<b>57,621,136</b>	<b>58,172,657</b>	<b>59,563,102</b>	<b>(1,390,445)</b>
<b><u>Excess of Revenues Over (Under)</u></b>				
<b><u>Expenditures</u></b>	<b>(716,364)</b>	<b>(974,415)</b>	<b>(992,718)</b>	<b>(18,303)</b>
<b><u>Fund Balances, Beginning of Year</u></b>				
	<b>7,015,789</b>	<b>7,015,789</b>	<b>7,015,789</b>	<b>-</b>
<b><u>Fund Balances, End of Year</u></b>				
	<b>\$ 6,299,425</b>	<b>\$ 6,041,374</b>	<b>\$ 6,023,071</b>	<b>\$ (18,303)</b>

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**  
**JUNE 30, 2015**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2009	\$ 49,506	\$ 6,490,077	\$ 6,440,571	0.76%	\$ 29,659,335	21.72%
July 1, 2011	4,587,022	6,130,609	1,543,587	74.80%	29,802,510	5.20%
July 1, 2013	4,428,715	9,582,643	5,153,928	46.20%	33,112,290	15.57%

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE DISTRICT'S AND NON-EMPLOYER PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**JUNE 30, 2015**

Last 10 Fiscal Years\*

For Fiscal Year Ended June 30:	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	Total	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
2014	0.2237%	\$ 10,508,305	\$ -	\$ 10,508,305	\$ 11,860,655	88.60%	78.7%
TRA							
2014	0.5147%	23,717,005	1,668,434	25,385,439	23,537,046	107.85%	81.5%

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

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**  
**JUNE 30, 2015**

Last 10 Fiscal Years\*

<b>For Fiscal Year Ended June 30:</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>District's Covered- Employee Payroll</b>	<b>Contributions as a Percentage of Covered- Employee Payroll</b>
<b>PERA</b>					
2015	\$ 915,520	\$ 915,520	\$ -	\$ 12,349,881	7.41%
<b>TRA</b>					
2015	1,884,490	1,884,490	-	25,306,605	7.45%

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

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2015**

**NOTE 1 – Budgetary Data**

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

**Legal Compliance – Budgets**

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for all funds of the District. However, the General and Special Revenue Funds are the only funds that are legally adopted through the budgetary process as documented below.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary controls are not employed for the Fiduciary Funds.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

**NOTE 2 – Stewardship, Compliance, Accountability**

**Expenditures in Excess of Budget**

Actual expenditures exceeded budget in the amount of \$1,390,445 for the year ended June 30, 2015 in the General Fund. This overage was considered by School Management to be the result of necessary expenditures critical to operations and was approved by the School Board.

**Fund Balance Deficits**

The Building Construction Fund had a deficit fund balance at June 30, 2015 of \$1,629,591. The fund balance deficit will be eliminated either by future revenue sources or operating transfers.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2015**

**NOTE 3 – Other Post-Employment Benefit Plan Funding Progress**

Multi-year trend information is available as Governmental Accounting Standards Board Statement 45 was implemented during the 2007 fiscal year. See Note 8 – Other Post-Employment Benefits for more information.

**NOTE 4 – Pensions**

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

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

<u>ASSETS</u>	<u>Special Revenue Funds</u>				<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Building Construction</u>	<u>OPEB Debt Service</u>	
Cash and Investments	\$ 542,019	\$ 442,070	\$ -	\$ 403,464	\$ 1,387,553
Property Taxes Receivable	-	178,644	-	248,170	426,814
Due from Other Governmental Units	38,733	58,361	-	405	97,499
Other Accounts Receivable	-	14,275	-	-	14,275
Inventory	24,403	-	-	-	24,403
<b><u>Total Assets</u></b>	<b><u>\$ 605,155</u></b>	<b><u>\$ 693,350</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 652,039</u></b>	<b><u>\$ 1,950,544</u></b>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u></b>					
<b><u>AND FUND BALANCE</u></b>					
<b><u>Liabilities</u></b>					
Salaries Payable	\$ 88,517	\$ 47,934	\$ -	\$ -	\$ 136,451
Accounts Payable	41,488	5,452	363,273	-	410,213
Due to Other Funds	-	-	766,318	-	766,318
Due to Other Governmental Units	-	-	500,000	-	500,000
Payroll Deductions and Employer Contributions	14,636	7,796	-	-	22,432
Unearned Revenue	26,442	-	-	-	26,442
<b>Total Liabilities</b>	<b>171,083</b>	<b>61,182</b>	<b>1,629,591</b>	<b>-</b>	<b>1,861,856</b>
<b><u>Deferred Inflows of Resources</u></b>					
Unavailable Revenue - Delinquent Taxes	-	8,167	-	9,889	18,056
Property Taxes Levied for Subsequent Expenditures	-	405,970	-	567,439	973,409
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>414,137</b>	<b>-</b>	<b>577,328</b>	<b>991,465</b>
<b><u>Fund Balance</u></b>					
Nonspendable	24,403	-	-	-	24,403
Restricted for:					
Early Childhood and Family Education	-	256,551	-	-	256,551
School Readiness	-	32,504	-	-	32,504
Adult Basic Education	-	8,398	-	-	8,398
Food Service	409,669	-	-	-	409,669
OPEB Debt Service	-	-	-	74,711	74,711
Unassigned (Deficit)	-	(79,422)	(1,629,591)	-	(1,709,013)
<b>Total Fund Balance (Deficit)</b>	<b>434,072</b>	<b>218,031</b>	<b>(1,629,591)</b>	<b>74,711</b>	<b>(902,777)</b>
<b><u>Total Liabilities, Deferred Inflows of Resources and Fund Balance</u></b>	<b><u>\$ 605,155</u></b>	<b><u>\$ 693,350</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 652,039</u></b>	<b><u>\$ 1,950,544</u></b>



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<u>Special Revenue Funds</u>				<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Building Construction</u>	<u>OPEB Debt Service</u>	
<b><u>Revenues</u></b>					
Local Property Taxes	\$ -	\$ 390,758	\$ -	\$ 563,647	\$ 954,405
Other Local and County Revenues	-	829,333	-	-	829,333
Revenues from State Sources	175,715	595,836	-	4,052	775,603
Revenues from Federal Sources	1,893,630	381,394	-	-	2,275,024
Sales and Other Conversions of Assets	1,105,897	-	-	-	1,105,897
Investment Earnings	310	103	-	-	413
<b>Total Revenues</b>	<b>3,175,552</b>	<b>2,197,424</b>	<b>-</b>	<b>567,699</b>	<b>5,940,675</b>
<b><u>Expenditures</u></b>					
Community Education and Services	-	2,116,673	-	-	2,116,673
Pupil Support Services	3,607,725	14,126	-	-	3,621,851
Site, Buildings, and Equipment	-	-	1,629,591	-	1,629,591
Debt Service:					
Principal Retirement	-	-	-	310,000	310,000
Interest and Fiscal Fees	-	-	-	230,990	230,990
<b>Total Expenditures</b>	<b>3,607,725</b>	<b>2,130,799</b>	<b>1,629,591</b>	<b>540,990</b>	<b>7,909,105</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(432,173)</b>	<b>66,625</b>	<b>(1,629,591)</b>	<b>26,709</b>	<b>(1,968,430)</b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b>866,245</b>	<b>151,406</b>	<b>-</b>	<b>48,002</b>	<b>1,065,653</b>
<b><u>Fund Balances, End of Year</u></b>	<b>\$ 434,072</b>	<b>\$ 218,031</b>	<b>\$ (1,629,591)</b>	<b>\$ 74,711</b>	<b>\$ (902,777)</b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**AGENCY FIDUCIARY FUNDS**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**YEAR ENDED JUNE 30, 2015**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b><u>Student Activities</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	<u>\$ 357,759</u>	<u>\$ 521,674</u>	<u>\$ 485,905</u>	<u>\$ 393,528</u>
<b><u>Liabilities</u></b>				
Due to Student Organizations	<u>\$ 357,759</u>	<u>\$ 521,674</u>	<u>\$ 485,905</u>	<u>\$ 393,528</u>
 <b><u>BEA Retiree Fringe Benefit Pool</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	<u>\$ 260,630</u>	<u>\$ 512,875</u>	<u>\$ 485,372</u>	<u>\$ 288,133</u>
<b><u>Liabilities</u></b>				
Due to Bemidji Education Association	<u>\$ 260,630</u>	<u>\$ 270,046</u>	<u>\$ 242,543</u>	<u>\$ 288,133</u>
 <b><u>Total All Agency Funds</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	<u>\$ 618,389</u>	<u>\$ 1,034,549</u>	<u>\$ 971,277</u>	<u>\$ 681,661</u>
<b><u>Liabilities</u></b>				
Due to Bemidji Education Association	<u>260,630</u>	<u>270,046</u>	<u>242,543</u>	<u>288,133</u>
Due to Student Organizations	<u>357,759</u>	<u>521,674</u>	<u>485,905</u>	<u>393,528</u>
<b><u>Total Liabilities</u></b>	<u>\$ 618,389</u>	<u>\$ 791,720</u>	<u>\$ 728,448</u>	<u>\$ 681,661</u>

**FISCAL COMPLIANCE REPORT - 6/30/2015**  
**District: BEMIDJI (0031-01)**

	Audit (-)				Audit (-)		
	Audit	UFARS	UFARS		Audit	UFARS	UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$58,570,384	\$58,570,382	\$2	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$59,563,102	\$59,563,101	\$1	Total Expenditures	\$1,629,591	\$800,924	\$828,667
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$692,593	\$692,593	\$0	4.60 Non Spendable Fund Balance	\$0	\$328,667	-\$328,667
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$319,911	\$319,911	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$109,976	\$109,976	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	-\$1,281,015	\$1,281,015	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.09 Alternative Facility Program	\$0	\$0	\$0	Unassigned:			
4.13 Project Funded by COP	\$0	\$0	\$0	4.63 Unassigned Fund Balance	-\$1,629,591	-\$1,129,591	-\$500,000
4.14 Operating Debt	\$0	\$0	\$0				
4.16 Levy Reduction	\$0	\$0	\$0	<b>07 DEBT SERVICE</b>			
4.17 Taconite Building Maint	\$0	\$0	\$0	Total Revenue	\$3,389,376	\$3,389,375	\$1
4.23 Certain Teacher Programs	\$0	\$0	\$0	Total Expenditures	\$3,472,725	\$3,472,725	\$0
4.24 Operating Capital	\$2,464,814	\$2,464,814	\$0	Non Spendable:			
4.26 \$25 Taconite	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Restricted/Reserved:			
4.28 Learning & Development	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	Restricted:			
4.36 State Approved Alt. Program	\$597,065	\$597,065	\$0	4.64 Restricted Fund Balance	\$1,106,407	\$1,106,407	\$0
4.38 Gifted & Talented	\$94,288	\$94,288	\$0	Unassigned:			
4.40 Teacher Development and Eval	\$117,624	\$117,624	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.41 Basic Skills Program	\$174,957	\$174,957	\$0				
4.45 Career Tech Programs	\$0	\$0	\$0	<b>08 TRUST</b>			
4.48 Achievement and Integration	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.49 Safe Schools Crime - Crime Levy	\$309,789	\$309,789	\$0	Total Expenditures	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	<b>20 INTERNAL SERVICE</b>			
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Restricted:				Total Expenditures	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Committed:							
4.18 Committed for Separation	\$577,793	\$577,793	\$0	<b>25 OPEB REVOCABLE TRUST</b>			
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Assigned:				Total Expenditures	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Unassigned:							
4.22 Unassigned Fund Balance	\$564,261	\$1,845,276	-\$1,281,015	<b>45 OPEB IRREVOCABLE TRUST</b>			
				Total Revenue	\$40,749	\$40,749	\$0
<b>02 FOOD SERVICES</b>				Total Expenditures	\$497,291	\$497,291	\$0
Total Revenue	\$3,175,552	\$3,175,551	\$1	4.22 Unassigned Fund Balance	\$3,815,249	\$3,815,249	\$0
Total Expenditures	\$3,607,725	\$3,607,724	\$1				
Non Spendable:				<b>47 OPEB DEBT SERVICE</b>			
4.60 Non Spendable Fund Balance	\$24,403	\$24,403	\$0	Total Revenue	\$567,699	\$567,699	\$0
Restricted/Reserved:				Total Expenditures	\$540,990	\$540,990	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Non Spendable:			
Restricted:				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$409,669	\$409,669	\$0	Restricted:			
Unassigned:				4.25 Bond Refunding	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$74,711	\$74,711	\$0
				Unassigned:			
<b>04 COMMUNITY SERVICE</b>				4.63 Unassigned Fund Balance	\$0	\$0	\$0
Total Revenue	\$2,197,424	\$2,197,424	\$0				
Total Expenditures	\$2,130,799	\$2,130,799	\$0				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$0	-\$105,305	\$105,305				
4.32 E.C.F.E.	\$256,551	\$256,551	\$0				
4.40 Teacher Development and Eval	\$0	\$0	\$0				
4.44 School Readiness	\$32,504	\$32,504	\$0				
4.47 Adult Basic Education	\$8,398	\$8,398	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$25,883	-\$25,883				
Unassigned:							
4.63 Unassigned Fund Balance	-\$79,422	\$0	-\$79,422				

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Federal Expenditures</u>
<b><u>U. S. Department of Agriculture</u></b>			
Pass-Through Minnesota Department of Education:			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	\$ 400,075	
National School Lunch Program	10.555	1,137,370	
Commodities Cash Rebate	10.555	11,187	
Commodity Distribution	10.555	211,878	
Summer Food Program	10.559	<u>63,258</u>	
Total Child Nutrition Cluster			\$ 1,823,768
Fresh Fruit and Vegetables Program	10,582		19,693
Child and Adult Care	10.558		<u>50,169</u>
Total Department of Agriculture			<u>1,893,630</u>
<b><u>U. S. Department of Interior</u></b>			
Pass-Through Red Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130		6,575
Pass-Through Leech Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130		<u>11,381</u>
Total Department of Interior			<u>17,956</u>
<b><u>U. S. Department of Education</u></b>			
Direct Programs:			
Impact Aid	84.041		74,961
Indian Education Grants to Local Education Agencies	84.060		207,529
Pass-Through Minnesota Department of Education:			
Improving Teacher Quality State Grants	84.367		285,548
Title I Cluster:			
Title I Grants to Local Education Agencies	84.010	1,360,056	
Title I (N & D)	84.010A	<u>235,772</u>	
Total Title I Cluster			1,595,828
Special Education Cluster:			
Special Education Part B Sec 611 Regular Allocation	84.027	1,133,701	
Part B- Coordinated Early Intervening Services (CEIS)	84.027	1,075	
CIMP	84.027	<u>9,040</u>	
Sub-total		1,143,816	
Special Education - Part B Section 619 Preschool Regular	84.173	<u>33,192</u>	
Total Special Education Cluster			1,177,008

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

<b><u>Federal Grantor/Pass-Through Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
Special Education - Part C IEIC, Ages 0-2	84.181	43,547
Title X, Part C - Sub B: Education for Homeless Children & Youth	84.196	40,000
Title IV Part B 21st Century Community Learning Centers	84.287	381,394
Title VI, Part B Rural and Low-Income Schools	84.358	78,452
<b>Pass-Through North Country Vocational Cooperative Center:</b>		
Carl Perkins Career and Technical Education	84.243	8,928
Carl Perkins Career and Technical Reserve	84.048	28,845
<b>Pass-Through Bemidji Regional Interdistrict Cooperative:</b>		
IDEA Part B - Discretionary Low Incidence	84.027	34,636
Total Department of Education		<u>3,956,676</u>
<b><u>Total Federal Assistance Expended</u></b>		<b><u>\$ 5,868,262</u></b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2015**

**NOTE 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Independent School District No. 31 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**NOTE 2 - Child Nutrition Cluster**

Cash receipts from the U. S. Department of Agriculture through the Minnesota Department of Education are included in revenues from federal sources. It is assumed that federal funds are expended first.

**NOTE 3 - Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**NOTE 4 - Matching Requirements**

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE 5 – Pass-through Entities**

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

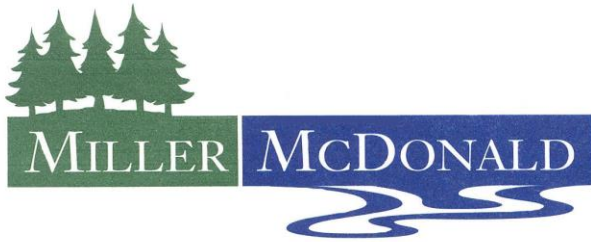
**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**TAX LEVIES, TAX RATES AND STUDENT CENSUS**  
**JUNE 30, 2015**  
**(Unaudited)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Property Tax Levies</b>										
General Referendum	\$ 3,085,459	\$ 2,235,880	\$ 2,790,555	\$ 2,753,636	\$ 2,735,198	\$ 2,737,078	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688	\$ 1,784,861
General Maintenance	1,674,437	1,944,504	1,755,458	1,656,050	1,626,433	1,973,806	1,727,879	1,760,443	1,363,836	931,211
Community Service	405,970	392,049	391,859	388,022	360,331	351,091	359,408	311,974	351,150	318,539
Debt Redemption	3,411,683	3,369,247	3,688,980	3,627,350	4,274,766	3,944,315	4,141,766	4,181,544	4,421,541	4,576,783
OPEB Pension Debt	567,439	567,283	572,559	571,797	-	-	-	-	-	-
<b>Total Property Tax Levies</b>	<b>\$ 9,144,988</b>	<b>\$ 8,508,963</b>	<b>\$ 9,199,411</b>	<b>\$ 8,996,855</b>	<b>\$ 8,996,728</b>	<b>\$ 9,006,290</b>	<b>\$ 8,838,514</b>	<b>\$ 8,618,213</b>	<b>\$ 8,194,215</b>	<b>\$ 7,611,394</b>

<b>Taxable Net Tax Capacity</b>										
Beltrami County	\$ 27,270,002	\$ 26,472,612	\$ 26,192,709	\$ 26,203,618	\$ 26,682,043	\$ 26,368,601	\$ 25,601,517	\$ 24,068,019	\$ 21,976,481	\$ 18,598,643
Hubbard County	3,369,273	3,228,077	3,094,207	3,081,085	3,270,691	3,460,714	3,336,329	3,086,630	2,579,451	2,261,810
<b>Total Net Tax Capacity</b>	<b>\$ 30,639,275</b>	<b>\$ 29,700,689</b>	<b>\$ 29,286,916</b>	<b>\$ 29,284,703</b>	<b>\$ 29,952,734</b>	<b>\$ 29,829,315</b>	<b>\$ 28,937,846</b>	<b>\$ 27,154,649</b>	<b>\$ 24,555,932</b>	<b>\$ 20,860,453</b>
<b>Property Tax Rate</b>										
	19.777%	21.121%	21.883%	21.293%	20.880%	20.993%	21.499%	23.045%	24.990%	27.931%
<b>Referendum Market Values</b>										
Beltrami County	\$ 2,082,158,556	\$ 2,036,184,585	\$ 2,011,066,868	\$ 2,010,513,459	\$ 1,939,767,425	\$ 1,929,380,345	\$ 1,925,650,921	\$ 1,838,553,655	\$ 1,702,738,595	\$ 1,455,618,295
Hubbard County	231,993,545	219,091,135	209,651,955	209,981,645	198,776,950	208,294,180	224,374,220	213,065,100	182,281,101	161,103,300
<b>Total Referendum Market Values</b>	<b>\$ 2,314,152,101</b>	<b>\$ 2,255,275,720</b>	<b>\$ 2,220,718,823</b>	<b>\$ 2,220,495,104</b>	<b>\$ 2,138,544,375</b>	<b>\$ 2,137,674,525</b>	<b>\$ 2,150,025,141</b>	<b>\$ 2,051,618,755</b>	<b>\$ 1,885,019,696</b>	<b>\$ 1,616,721,595</b>
<b>Referendum Rate</b>										
	0.13333%	0.09914%	0.12566%	0.12401%	0.12790%	0.12804%	0.12137%	0.11538%	0.10916%	0.11040%

<b>Students Served (Weighted ADM/PUN's*)</b>										
Residents	5,917.70	6,387.40	6,276.61	6,219.74	6,104.63	6,030.05	5,859.57	5,911.40	5,916.96	5,914.56
<b>Nonresidents in District</b>										
Tuition	70.15	68.90	75.52	75.18	64.80	80.36	82.14	82.41	122.70	127.12
Enrollment Options	321.44	333.15	348.44	316.04	347.14	309.93	280.02	236.68	245.72	222.65
Ineligible	0.25	0.01	0.08	3.10	2.40	1.53	0.65	0.60	0.62	3.53
Shared Aid	10.33	13.48	12.23	9.00	7.91	8.47	9.27	14.39	12.51	12.72
Shared Time Tuition	-	-	0.26	0.13	0.20	0.10	0.11	0.21	-	-
Adults	-	-	-	-	-	-	6.54	-	-	-
<b>Residents Outside District</b>										
Tuition	(15.48)	(21.65)	(28.21)	(22.90)	(16.59)	(20.18)	(27.21)	(24.59)	(35.38)	(33.19)
Charter	(502.56)	(528.32)	(482.83)	(448.18)	(443.20)	(430.80)	(442.59)	(428.10)	(433.15)	(398.82)
Enrollment Options	(342.12)	(402.42)	(379.00)	(426.07)	(411.11)	(382.28)	(363.27)	(341.11)	(369.75)	(397.26)
<b>Total Students Served</b>	<b>5,459.71</b>	<b>5,850.55</b>	<b>5,823.10</b>	<b>5,726.04</b>	<b>5,656.18</b>	<b>5,597.18</b>	<b>5,405.23</b>	<b>5,451.89</b>	<b>5,460.23</b>	<b>5,451.31</b>
<b>Adjusted Weighted ADM/PUN's*</b>	<b>5,394.46</b>	<b>5,789.81</b>	<b>5,763.22</b>	<b>5,661.53</b>	<b>5,597.46</b>	<b>5,526.90</b>	<b>5,333.73</b>	<b>5,378.87</b>	<b>5,359.78</b>	<b>5,341.13</b>
<b>Resident ADM's</b>	<b>5,443.18</b>	<b>5,578.91</b>	<b>5,461.95</b>	<b>5,410.83</b>	<b>5,319.43</b>	<b>5,238.58</b>	<b>5,101.45</b>	<b>5,104.55</b>	<b>5,108.15</b>	<b>5,101.53</b>

\*The State of Minnesota changed to Pupil Unit Weightings (PUN) from Weighted Average Daily Membership (WADM) in the year ending June 30, 2015 to calculate general education aid.



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 www.millermcdonald.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT  
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE  
 FOR POLITICAL SUBDIVISIONS**

The Board of Education  
 Independent School District No. 31  
 Bemidji, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2015.

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

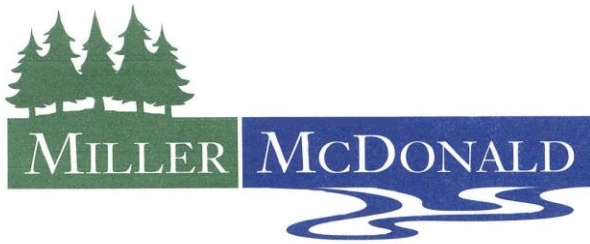
In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 31 – Bemidji, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 31 – Bemidji, Minnesota's noncompliance with the above referenced provisions.

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

*Miller McDonald, Inc.*

December 2, 2015  
 Bemidji, Minnesota





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

The Board of Education  
 Independent School District No. 31  
 Bemidji, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Independent School District No. 31 – Bemidji, Minnesota’s basic financial statements, and have issued our report thereon dated December 2, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Independent School District No. 31 – Bemidji, Minnesota’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota’s internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota’s internal control.

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

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

Independent School District No. 31  
Bemidji, Minnesota

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 31 – Bemidji, Minnesota’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

*Miller McDonald, Inc.*

December 2, 2015  
Bemidji, Minnesota



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
 EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
 OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board of Education  
 Independent School District No. 31  
 Bemidji, Minnesota

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

We have audited Independent School District No. 31 – Bemidji, Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 31 – Bemidji, Minnesota's major federal programs for the year ended June 30, 2015. Independent School District No. 31 – Bemidji, Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Independent School District No. 31 – Bemidji, Minnesota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 31 – Bemidji, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 31 – Bemidji, Minnesota's compliance.

**Opinion on Each Major Federal Programs**

In our opinion, Independent School District No. 31 – Bemidji, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of Independent School District No. 31 – Bemidji, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 31 – Bemidji, Minnesota’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota’s internal control over compliance.

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

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

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

*Miller McDonald, Inc.*

December 2, 2015  
Bemidji, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2015**

**I. SUMMARY OF AUDITOR'S RESULTS**

- 1.) An unmodified opinion on the financial statements was issued.
- 2.) There were no significant deficiencies in internal control reported on the audit of the financial statements and no deficiencies were identified as a material weakness.
- 3.) The audit did not disclose any noncompliance which was material to the financial statements.
- 4.) No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133*.
- 5.) An unmodified opinion on compliance for major federal award programs was issued.
- 6.) No findings were disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133.
- 7.) Major programs:

Title I Cluster - Grants to Local Education Agencies	CFDA No. 84.010
Child Nutrition Cluster:	
School Breakfast	CFDA No. 10.553
School Lunch	CFDA No. 10.555
Summer Food Program	CFDA No. 10.559
- 8.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 did not qualify as a low-risk auditee.

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.**

**INTERNAL CONTROL**

None

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

**INTERNAL CONTROL**

None

**COMPLIANCE**

None