

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2014

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
Willmar, Minnesota

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INDEPENDENT SCHOOL DISTRICT #347

TABLE OF CONTENTS
JUNE 30, 2014

	<u>PAGE</u>
BOARD OF EDUCATION AND ADMINISTRATION	1
INDEPENDENT AUDITOR'S REPORT	2-4
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	5-19
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	20
Statement of Activities	21
Balance Sheet - Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Food Service Special Revenue Fund	27
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Community Service Special Revenue Fund	28
Statement of Net Position - Proprietary Fund	29
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	30
Statement of Cash Flows - Proprietary Fund	31
Statement of Fiduciary Net Position	32
Statement of Changes in Fiduciary Net Position	32
Notes to the Financial Statements	33-63

INDEPENDENT SCHOOL DISTRICT #347

TABLE OF CONTENTS
JUNE 30, 2014

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Funding Progress and Employer Contributions	64
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund	65
REQUIRED REPORTS	
UFARS Compliance Table	66
Schedule of Expenditures of Federal Awards	67
Notes to Schedule of Expenditures of Federal Awards	68
COMPLIANCE SECTION	
Independent Auditor's Report on Minnesota Legal Compliance	69
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 <i>Government Auditing Standards</i>	70-71
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	72-73
Schedule of Findings and Questioned Costs	74
STUDENT ACTIVITIES	
Independent Auditor's Report on Student Activities	75-76
Statements of Cash Receipts and Disbursements	77-78
Notes to the Student Activity Accounts Financial Statements	79
Independent Auditor's Report on Student Activities Compliance	80-81
Schedule of Student Activities Findings	82

INDEPENDENT SCHOOL DISTRICT #347
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2014

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Mike Carlson	1/8/2017
Vice-Chairperson	Liz VanDerBill	1/8/2017
Clerk	Jackie Saulsbury	1/8/2017
Treasurer	Mike Reynolds	1/8/2017
Director	Linda Mathiasen	1/4/2015
Director	Nathan Streed	1/4/2015
Director	Laura Warne	1/4/2015
<u>Administration</u>		
Superintendent	Dr. Jerry Kjergaard	
Director of Business and Finance	Pam Harrington	
Director of Human Resources	Liz Fischer	

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INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District #347
Willmar, 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 #347, Willmar, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 14, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Board of Education and Administration page and the statements and schedules listed in the table of contents as supplementary information 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 individual fund financial schedule, UFARS Compliance Table, and the Schedule of Expenditures of Federal Awards (supplementary information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Education and Administration page has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

This section of Willmar Public Schools – Independent School District No. 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL REVIEW

Key financial items for the 2013-2014 fiscal year include the following:

- The General Fund unassigned fund balance again exceeded the School Board's fund balance minimum of 6% of expenditures with a fund balance of \$7,569,034, equivalent to 16.25% of expenditures. The fund balance also exceeded the revised budget estimate of \$5,215,185 or 10.94% of budgeted expenditures. The additional fund balance is attributed to increased revenue due to receipt of health insurance premium reimbursement from a prior year, additional special education funding, increased achievement and integration funding and school improvement grant funding. In addition, the teachers did not settle their contract as expected this year and were paid 12-13 wages.
- Net Position increased 11.24% from the prior year due to the increase in current and other assets, the decrease of long-term liabilities and the increased unassigned fund balance as discussed above.
- The combined Governmental Funds fund balance increased by 10.48%, or \$1,126,367.
- The overall net decrease to the District's long-term liabilities was \$2,746,474, or 34.60%.
- Enrollment decreased by 125 ADM's (Average Daily Membership) in FY 2014. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level. The average decrease over the past 5 years was 16 students.
- The District's comprehensive annual financial report for the year ended June 30, 2013 was awarded the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO).

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts. They are:

- Independent Auditor's Report,
- Required Supplementary Information, which includes the Management's Discussion and Analysis (this section), and
- Basic financial statements

The basic financial statements include two kinds of statements that present different views of the District:

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

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

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs 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.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- **Governmental Activities** – The District's basic services are reported here, including regular and special education, transportation, administration, food service, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's **funds** – focusing on its most significant or "major" funds – rather than 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, such as a Scholarship fund to manage scholarship money.

The District has three kinds of funds:

- **Governmental funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how **cash and other financial assets** that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed **short-term** view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.
- **Proprietary funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's sole Proprietary fund is an internal service fund.
 - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for the dental self-insurance program.
- **Fiduciary funds** – The District is a trustee, or fiduciary, for assets that belong to others, such as the Private-Purpose Trust Fund. This fund accounts for scholarship gifts and bequests. 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. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's *combined* net position was \$35,081,760 on June 30, 2014. This was an increase of 11.24% from the previous year (see Table A-1 below).

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

	Governmental Activities		Percentage Change
	2014	2013	
Current and Other Assets	\$ 21,659,074	\$ 20,072,831	7.90%
Capital Assets	28,274,044	28,638,541	-1.27%
Total Assets	49,933,118	48,711,372	2.51%
Current Liabilities	\$ 5,014,349	\$ 4,617,295	8.60%
Long-term Liabilities	5,191,802	7,938,276	-34.60%
Total Liabilities	10,206,151	12,555,571	-18.71%
Property Taxes Levied for Subsequent Year's	\$ 4,645,207	\$ 4,618,260	0.58%
Total Deferred Inflows of Resources	4,645,207	4,618,260	0.58%
Net Position			
Net Investment in Capital Assets	\$ 27,265,661	\$ 25,209,561	8.16%
Restricted	2,316,768	1,777,984	30.30%
Unrestricted	5,499,331	4,549,996	20.86%
Total Net Position	\$ 35,081,760	\$ 31,537,541	11.24%

The largest portion of the District's net position (77.72%) reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, and equipment net of accumulated depreciation); less any related outstanding debt (such as general obligation bonds) used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Unrestricted net position is primarily the District's unassigned fund balance offset by the liability for future severance and health benefits, which is not fully funded.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

A summary of the revenues and expenses for the last two fiscal years is presented in Table A-2 below.

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

	Governmental Activities for the fiscal year ended June 30,		Percentage Change
	2014	2013	
Revenues			
Program Revenues			
Charges for Services	\$ 3,020,197	\$ 2,534,151	19.18%
Operating Grants and Contributions	20,673,342	17,631,041	17.26%
Capital Grants and Contributions	573,649	611,666	-6.22%
General Revenues			
Property Taxes	4,946,495	7,051,892	-29.86%
Unrestricted State Aid	26,569,360	25,009,454	6.24%
Investment Earnings	3,881	3,410	13.81%
Other	10,114	3,047	231.93%
Total Revenues	<u>55,797,038</u>	<u>52,844,661</u>	5.59%
Expenses			
Administration	\$ 1,707,055	\$ 1,520,367	12.28%
District Support Services	1,727,552	1,175,730	46.93%
Regular Instruction	23,216,190	22,758,200	2.01%
Vocational Education Instruction	860,654	744,161	15.65%
Special Education Instruction	8,097,144	8,097,501	0.00%
Instructional Support Services	2,430,927	2,281,440	6.55%
Pupil Support Services	3,725,367	3,361,335	10.83%
Sites and Buildings	4,942,012	4,772,106	3.56%
Fiscal and Other Fixed Costs Programs	155,944	153,756	1.42%
Food Service	2,640,628	2,775,336	-4.85%
Community Service	2,727,652	2,456,136	11.05%
Interest and Fiscal Charges on Long-Term Liabilities	21,694	134,352	-83.85%
Total Expenses	<u>52,252,819</u>	<u>50,230,420</u>	4.03%
Excess (Deficiency) before Special Item	3,544,219	2,614,241	35.57%
Special Item			
Loss on Sale of Building		922,657	100.00%
Change in Net Position	\$ 3,544,219	\$ 1,691,584	109.52%
Beginning Net Position	31,537,541	29,845,957	5.67%
Ending Net Position	<u>\$ 35,081,760</u>	<u>\$ 31,537,541</u>	11.24%

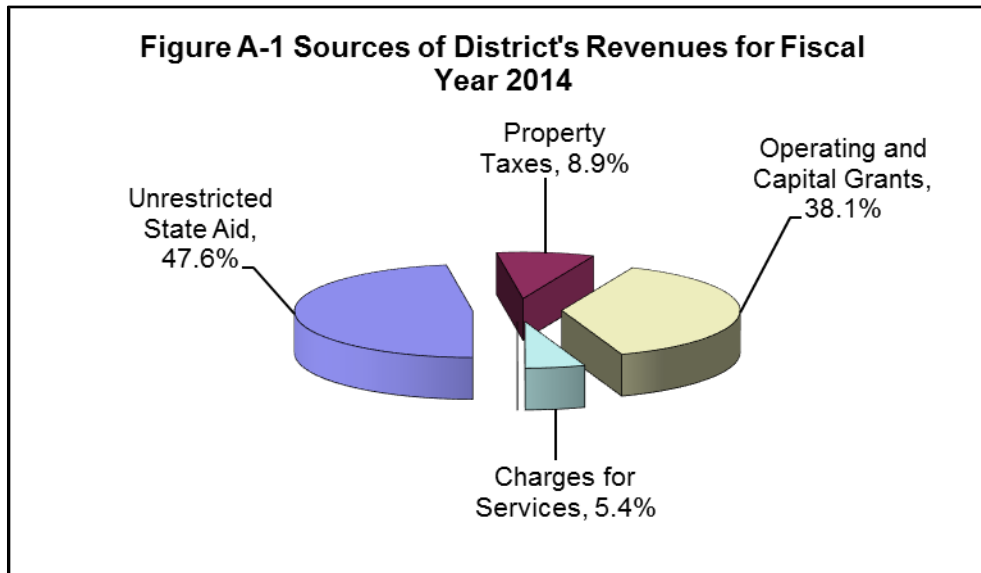
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

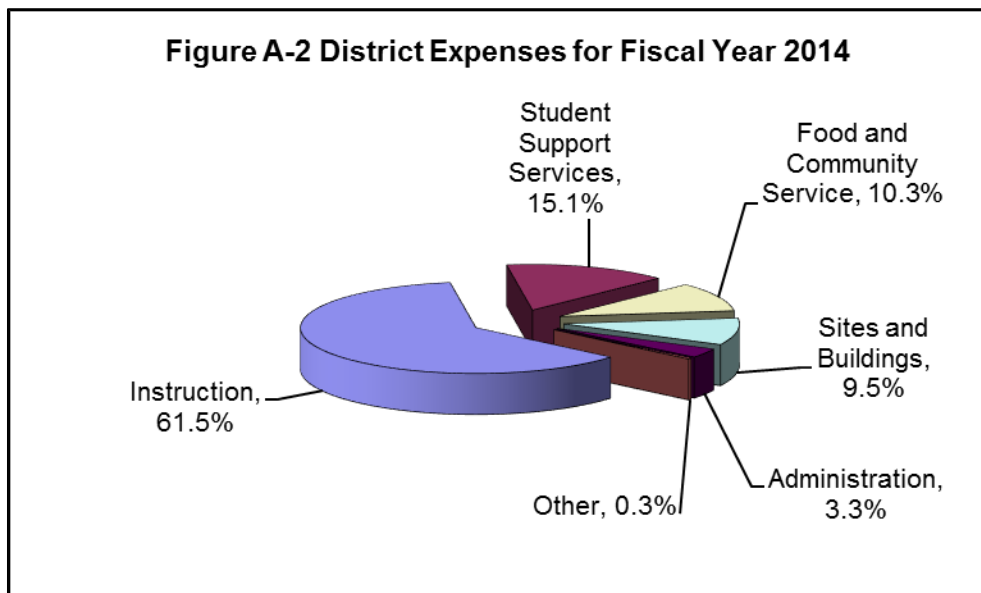
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position. The District's total revenues were \$55,797,038 for the year ended June 30, 2014. This is a 5.59% increase from the prior year's revenues.

Unrestricted state aid along with local property taxes accounted for 56.5% of the total revenue for the year (see Figure A-1 below). Another 43.5% came from restricted state, federal and local program revenues with a negligible amount from earnings on investments and other. Total revenues surpassed expenses, increasing net position \$3,544,219 from last year. The District saw increases to school improvement grant, compensatory, achievement and integration funding, as well as, a reimbursement of health insurance premiums from a prior year.



The District's total expenditures for programs and services were \$52,252,819 for the year ended June 30, 2014. This is a 4.0% increase from the prior year's expenses. The District's expenses are predominantly related to student education (76.6%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.3% of total costs.



INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The net cost of all *governmental* activities is their total costs less program revenues applicable to each category. The total cost of all governmental activities for this year was \$52,252,819. Table A-3 presents the costs of twelve major District activities such as instruction, food service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

- The users of the District's programs paid for 5.78%, or \$3,020,197 of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$21,246,991, or 40.66% of the total costs for 2013-2014.
- The remainder of the District's costs (\$27,985,631), however, were paid for by: 1) state taxpayers based on the statewide education aid formula, 2) by District taxpayers, and 3) by investment earnings.

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

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Administration	\$ 1,707,055	\$ 1,520,367	12.28%	\$ 1,707,055	\$ 1,520,367	12.28%
District Support Services	1,727,552	1,175,730	46.93%	1,200,768	1,078,199	11.37%
Regular Instruction	23,216,190	22,758,200	2.01%	13,276,465	13,322,189	-0.34%
Vocational Education Instruction	860,654	744,161	15.65%	784,972	703,483	11.58%
Special Education Instruction	8,097,144	8,097,501	0.00%	1,528,849	3,068,993	-50.18%
Instructional Support Services	2,430,927	2,281,440	6.55%	1,402,898	1,860,114	-24.58%
Pupil Support Services	3,725,367	3,361,335	10.83%	3,624,748	3,261,433	11.14%
Sites and Buildings	4,942,012	4,772,106	3.56%	4,309,312	4,026,170	7.03%
Fiscal and Other Fixed Costs Programs	155,944	153,756	1.42%	155,944	153,756	1.42%
Food Service	2,640,628	2,775,336	-4.85%	(346,055)	(95,747)	261.43%
Community Service	2,727,652	2,456,136	11.05%	318,981	420,253	-24.10%
Interest and Fiscal Charges on Long-Term Liabilities	21,694	134,352	-83.85%	21,694	134,352	-83.85%
Total	\$ 52,252,819	\$ 50,230,420	4.03%	\$ 27,985,631	\$ 29,453,562	-4.98%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2013-2014 fiscal year, the District's governmental funds reported a **combined** fund balance of \$11,869,649, a 10.48% increase from last year's ending fund balance of \$10,743,282.

Revenues for the District's governmental funds totaled \$55,808,218 while total expenditures were \$54,681,851. As a result, the District completed the year with an excess of revenues over expenditures of \$1,126,367. Discussion about each governmental fund follows. A summary of the revenues and expenditures reported on the governmental fund financial statements for the past two years appears in Table A-4 below:

**Table A-4
Revenues and Expenditures - Governmental Funds**

	2014			Fund Balance Increase (Decrease)
	Revenues	Expenditures	Other Financing Sources(Uses)	
General Fund	\$ 47,574,617	\$ 46,589,359	\$	\$ 985,258
Food Service Fund	2,986,842	2,877,397		109,445
Community Service Fund	2,805,979	2,724,470		81,509
Debt Service Fund	2,440,780	2,490,625		(49,845)
Totals	<u>\$ 55,808,218</u>	<u>\$ 54,681,851</u>	<u>\$ 0</u>	<u>\$ 1,126,367</u>

	2013			Fund Balance Increase (Decrease)
	Revenues	Expenditures	Other Financing Sources(Uses) and Special Item	
General Fund	\$ 44,936,799	\$ 44,193,410	\$ 19,204	\$ 762,593
Food Service Fund	2,871,222	2,732,967	950	139,205
Community Service Fund	2,437,565	2,451,455		(13,890)
Debt Service Fund	2,589,695	2,597,975		(8,280)
Totals	<u>\$ 52,835,281</u>	<u>\$ 51,975,807</u>	<u>\$ 20,154</u>	<u>\$ 879,628</u>

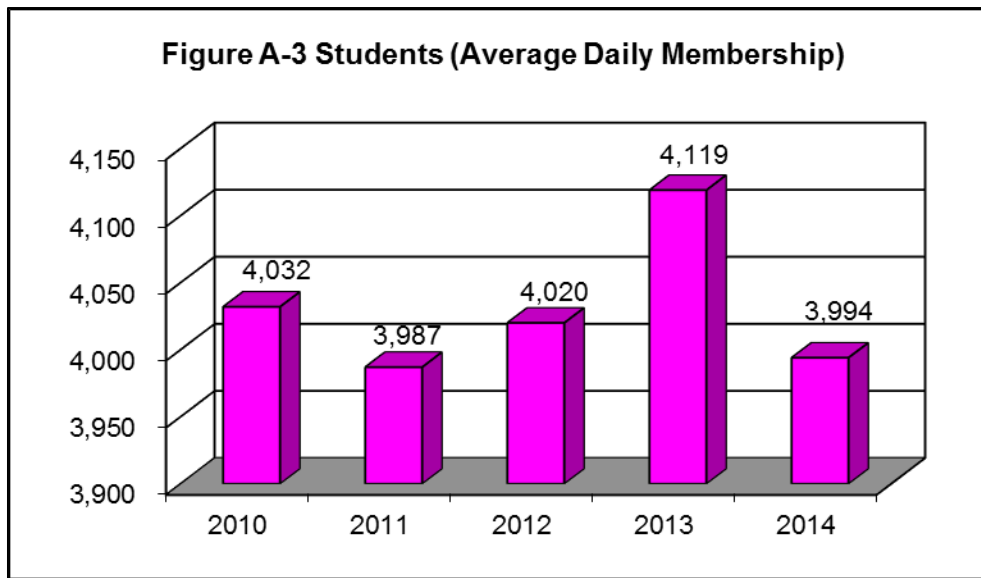
INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade 12. Pupil transportation activities and capital and major maintenance projects are also included in the General Fund.

Enrollment. Funding for Minnesota school districts is largely driven by enrollment. The District had fairly stable enrollment over the last few years which include small increases or decreases in enrollment from year to year with the exception of 2013 which saw an unusual spike in enrollment as seen in Figure A-3 below. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level.



In general, the District has been experiencing steady enrollment. However, the District faces typical enrollment challenges from open enrollment options, drop outs and competition from local private schools and home schooling options.

Looking into the near future, demographic trends continue to point to a continued level enrollment trend. The grade level sizes are evening out. However, the leveling out will include slight increases or decreases to enrollment each year.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

Sources	Year Ended June 30,		Amount Difference	Percentage Change
	2014	2013		
Local Sources				
Property Taxes	\$ 2,344,504	\$ 4,082,013	\$ (1,737,509)	-42.57%
Interest Earnings	3,033	2,489	544	21.86%
Other	2,263,832	1,525,673	738,159	48.38%
State Sources	39,839,288	36,715,193	3,124,095	8.51%
Federal Sources	3,123,960	2,611,431	512,529	19.63%
Total General Fund Revenues	<u>\$ 47,574,617</u>	<u>\$ 44,936,799</u>	<u>\$ 2,637,818</u>	5.87%

Total General Fund revenue increased \$2,637,818, or 5.87%, from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including operating levy referendum, involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

The increase to state aid is offset by the decrease of property taxes due to the tax/aid shift being paid back. State aid also increased in the categories of compensatory, achievement and integration and special education. Federal sources increased due to a larger school improvement grant and larger federal special education funding pass thru.

The following table presents a summary of General Fund expenditures:

**Table A-6
General Fund Expenditures**

Expenditures	Year Ended June 30,		Amount Difference	Percentage Change
	2014	2013		
Salaries	\$ 26,683,619	\$ 25,129,036	\$ 1,554,583	6.19%
Employee Benefits	8,739,337	8,181,503	557,834	6.82%
Purchased Services	7,408,209	7,934,587	(526,378)	-6.63%
Supplies and Materials	1,952,606	1,684,243	268,363	15.93%
Capital Expenditures	1,587,666	1,015,536	572,130	56.34%
Debt Service		13,188	(13,188)	-100.00%
Other Expenditures	217,922	235,317	(17,395)	-7.39%
Total General Fund Expenditures	<u>\$ 46,589,359</u>	<u>\$ 44,193,410</u>	<u>\$ 2,395,949</u>	5.42%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

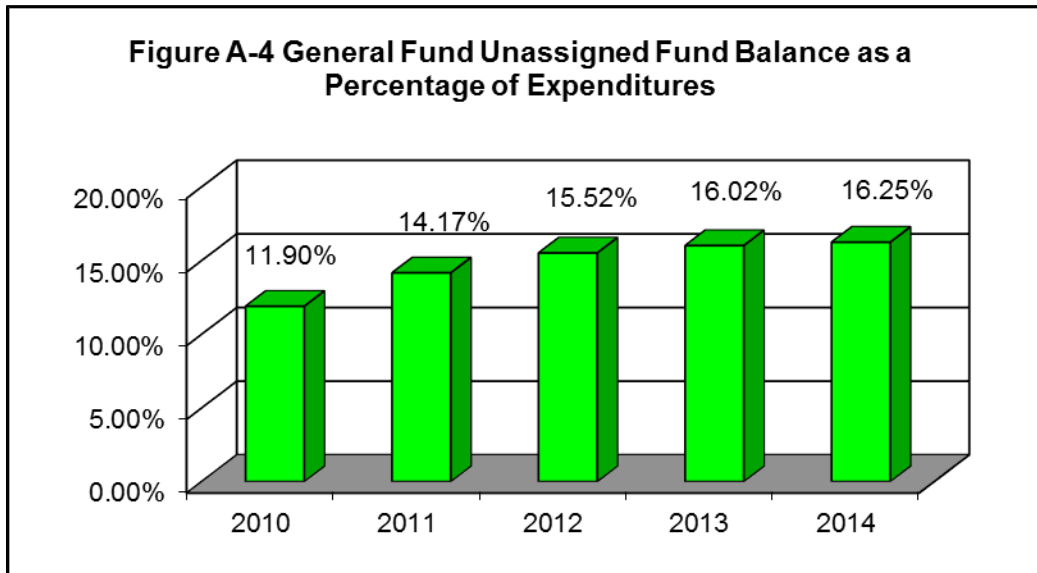
Total General Fund expenditures increased \$2,395,949 or 5.42% from the previous year.

Salaries increased due to contract settlements (with the exception of teachers), staffing adjustments and hiring staff to support the initiatives of the School Improvement Grant and the District. Employee benefits increased due to increased staffing and individual employee benefit choices. The District continues to proactively pursue various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Combined non-payroll expenditures (Purchased Services, Supplies and Materials, Capital Expenditures, Debt Service and Other Expenditures) increased \$283,532 or 2.60%, compared to last year. The District spent more on technology, capital projects and heating costs.

In summary, 2013-2014 General Fund revenues were more than General Fund expenditures by \$985,258. As a result, the total fund balance is \$10,044,265 at June 30, 2014. After deducting statutory reserves, committed constraints, assigned and nonspendable items, the unassigned fund balance increased from \$7,080,881 on June 30, 2013 to \$7,569,034 on June 30, 2014.

Figure A-4, below, depicts the General Fund unassigned fund balance as a percentage of expenditures for fiscal years 2010 – 2014:



The graph above describing the District's unassigned fund balance trend, offers the single best measure of the District's overall financial health. The unassigned fund balance of \$7,569,034 on June 30, 2014 represents 16.25% of annual expenditures.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

GENERAL FUND (CONTINUED)

The District closely monitors the General Fund unassigned fund balance through use of a detailed financial planning model, initiating necessary budget revisions during the year and with monthly budget analysis. The School Board has adopted a formal fund balance policy to maintain a minimum 6 percent (as a percentage of expenditures) fund balance in the General Fund unassigned fund.

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget once. The budget amendment usually falls into two categories:

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2013.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues would be less than expenditures by \$1,803,272, the actual results for the year show that revenues were more than expenditures by \$985,258. All bargaining agreements were settled with the exception of the teachers causing fund balance to be higher than expected. In addition, the district received a large reimbursement of a portion of health insurance premiums from a prior year. Compensatory revenue, special education and achievement and integration funding increased this year.

FOOD SERVICE FUND

The Food Service Fund revenue for 2013-2014 totaled \$2,986,842 and expenditures were \$2,877,397, resulting in a fund balance increase of \$109,445. The June 30, 2014 Food Service fund balance is \$825,425.

The Food Service Fund is anticipating the fund balance to decline slightly as kitchen remodel projects continue.

COMMUNITY SERVICE FUND

In 2013-2014, total revenues for the Community Service Fund were \$2,805,979 and total expenditures were \$2,724,470 resulting in a fund balance increase of \$81,509. The Community Service fund balance as of June 30, 2014 is \$485,408. Community Service continues to monitor the fund balance and make adjustments that allow for the optimal level of programming for the District.

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedules. The Debt Service Fund expenditures exceeded revenues by \$49,845 in 2013-2014. The resulting fund balance decrease leaves the Debt Service Fund with a fund balance of \$514,551 at June 30, 2014. This fund balance is only available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had net capital assets of \$28,274,044 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7 below). Total depreciation expense for the year was \$1,275,965. More detailed information about capital assets can be found in Note 5 to the financial statements.

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

<u>Assets</u>	<u>Year Ended June 30,</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>	
Capital Assets Not Being Depreciated	\$ 813,172	\$ 675,188	20.44%
Land Improvements	3,931,055	3,875,055	1.45%
Buildings and Improvements	46,888,870	46,494,645	0.85%
Equipment	4,531,076	4,584,184	-1.16%
Less: Accumulated Depreciation	<u>(27,890,129)</u>	<u>(26,990,531)</u>	3.33%
Total Net Capital Assets	<u>\$ 28,274,044</u>	<u>\$ 28,638,541</u>	-1.27%

Construction Plans

The School Board continues to meet in a workshop setting with other local governmental entities annually to be apprised of other projects coming up in the District that will impact constituents of the city, county, and school district. The District is also in the middle of a facility study to determine the future facility needs of the District.

Long-term Liabilities

At year-end, the District had \$1,008,383 in general obligation bonds outstanding including bond premium. This is a decrease of 70.59% from the previous year - as shown in Table A-8. The District continues to pay down its debt, retiring \$2,320,000 of outstanding bonds in the year ending June 30, 2014. The District implemented the Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) during fiscal year 2009. The GASB 45 estimated liability is \$1,541,595 at June 30, 2014. The District also has \$2,636,575 in compensated absences payable and \$5,249 in pension benefits payable at June 30, 2014. Other postemployment benefits payable consist of postemployment health insurance benefits available to employees as specified in the employee's employment contract upon retirement. Health benefits have been paid by the General Fund. Pension benefits payable consist of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General and Special Revenue Funds. Compensated absences payable consists of unused vacation at June 30, 2014 and other compensated absences paid at retirement for certain employees based on the employment contract. In the past, vacation expense has been paid by the General, Food Service, and the Community Service Funds. Overall, the District's outstanding long-term liabilities decreased by 34.60% in fiscal year 2014. More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

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

Long-Term Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 3,320,000	\$	\$ 2,320,000	\$ 1,000,000	\$ 1,000,000
Bond Premium	108,980		100,597	8,383	8,383
Other Postemployment Benefits Payable	1,249,565	770,299	478,269	1,541,595	
Pension Benefits Payable	17,648	32,053	44,452	5,249	
Compensated Absences Payable	3,242,083	943,553	1,549,061	2,636,575	450,187
Total	\$ 7,938,276	\$ 1,745,905	\$ 4,492,379	\$ 5,191,802	\$ 1,458,570

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

Some people called the 2013 legislative session "The Education Session". The results of the session will impact schools in FY 14, FY 15 and FY 16. A few changes were made for FY 14. The general fund basic formula was increased \$78 (1.5%) to \$5,302. Compensatory revenue increased. Career and Technical Education (CTE) levy is converted to an aid and levy with an equalizing factor of \$7,612. The 2% staff development set aside was reinstated. Achievement and Integration revenue replaced the old Integration revenue. The new program ran similarly to the old program with a few changes in FY 14. Special education aid will have a new formula in FY 16 with FY 14 and FY 15 as transitional years. In FY 14, there was a new cross subsidy reduction aid. There was also some excess cost aid changes. School Lunch aid increased from 12.0 cents to 12.5 cents per lunch served.

A preview of the changes coming in FY 15 include funding for all day, every day kindergarten. The pupil unit weights will be simplified which will make the first year a little more complicated as many of the formulas are increased to offset the change in the pupil unit weights. It will look like many of the formulas are increasing when they are really just being adjusted to provide the same amount of revenue as under the old weighting system. There will be an \$80 (1.5%) increase to the general fund basic formula. The uniform general education levy will return but will be called the student achievement levy. The operating capital levy will be used to offset any levy increase. School boards will be allowed to convert \$300 per the new adjusted pupil unit weighting from a voter approved levy to a board approved levy. Willmar made the decision not to convert the referendum at this time. There will be location equity revenue. Safe Schools levy will increase \$4 for new money per student and \$2 for the change in the pupil weighting. Tuition billing will be changed so that the resident district is responsible for 90% of the unfunded costs (vs. 100% currently) and the serving district will be responsible for 10% of the unfunded costs. Adult Basic Education growth factor increases from 1.02 to 1.025.

The Willmar area has businesses that have shut its doors and others open the doors. Pizza Hut restaurant and other businesses closed their doors this year. Hardees and Aldi opened or will be opening businesses in Willmar during the year.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

In 2012, the Minnesota Department of Education received a waiver from the federal No Child Left Behind mandate. In the waiver, the former system of identifying schools as not making adequate yearly progress was replaced with a new multiple measure formula. With the initial onset of this formula, schools across the state were identified based on this measurement and those schools who were in the lowest five percent achievement level in reading and/or math were named as Priority Schools. In addition, schools who are failing to close the achievement gap in specific sub-groups were identified and titled as Focus Schools. Kennedy Elementary is a priority school and Roosevelt Elementary is a focus school which has implications across the District. The District applied for and was awarded a School Improvement Grant again for 2013-14 which has allowed the District to retain additional administrators, instructional coaches and community liaisons for both schools. These new positions along with the focus on Response to Intervention provide additional support for all students along with a daily block of time dedicated to providing interventions for all children whether they are below, at or above grade level. The District is making every effort to ensure that the staff is provided with necessary support with instructional practices by participating in professional learning communities where staff will examine student work and then make instructional changes in order to support all of our learners. With these changes, it has been critical for the District to be transparent with all families in the community to ensure all stakeholders are working together with one common goal to increase student learning.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide District citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5th St SW, Willmar, MN 56201-3297, visit the Finance section of the District website at www.willmar.k12.mn.us (click on Departments and Finance), or contact Pam Harrington, Director of Business and Finance, at harringtonp@willmar.k12.mn.us or 320-231-8511.

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BASIC FINANCIAL STATEMENTS

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INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
 JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2013

	Governmental Activities	
	2014	2013
ASSETS		
Cash and Investments	\$ 11,600,090	\$ 8,954,404
Receivables		
Property Taxes	2,402,227	3,346,550
Other Governments	7,342,937	7,490,760
Other	163,870	94,465
Prepaid Items	101,820	130,434
Inventories	48,130	56,218
Capital Assets		
Assets Not Being Depreciated	813,172	675,188
Other Capital Assets, Net of Depreciation	27,460,872	27,963,353
Total Assets	\$ 49,933,118	\$ 48,711,372
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	\$ 3,857,973	\$ 3,813,709
Accounts and Contracts Payable	836,888	451,925
Due to Other Governmental Units	221,760	203,209
Accrued Interest Payable	20,833	69,167
Unearned Revenue	76,895	79,285
Noncurrent Liabilities		
Due Within One Year	1,458,570	2,906,637
Due in More Than One Year	3,733,232	5,031,639
Total Liabilities	10,206,151	12,555,571
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	4,645,207	4,618,260
Net Position		
Net Investment in Capital Assets	27,265,661	25,209,561
Restricted for		
Operating Capital Purposes	141,963	68,159
State-Mandated Reserves	343,725	62,995
Food Service	825,425	715,980
Community Service	488,752	407,893
Debt Service	516,903	522,957
Unrestricted	5,499,331	4,549,996
Total Net Position	35,081,760	31,537,541
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 49,933,118	\$ 48,711,372

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014				2013
	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
					Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	\$ 1,707,055	\$	\$	\$	\$ (1,707,055)
District Support Services	1,727,552		526,784		(1,200,768)
Regular Instruction	23,216,190	826,683	9,113,042		(13,276,465)
Vocational Education Instruction	860,654	1,557	74,125		(784,972)
Special Education Instruction	8,097,144	417,479	6,150,816		(1,528,849)
Instructional Support Services	2,430,927		1,028,029		(1,402,898)
Pupil Support Services	3,725,367		100,619		(3,624,748)
Sites and Buildings	4,942,012	37,282	21,769	573,649	(4,309,312)
Fiscal and Other Fixed Costs Programs	155,944				(155,944)
Food Service	2,640,628	816,464	2,170,219		346,055
Community Service	2,727,652	920,732	1,487,939		(318,981)
Interest and Fiscal Charges on Long-Term Liabilities	21,694				(21,694)
Total Governmental Activities	\$ 52,252,819	\$ 3,020,197	\$ 20,673,342	\$ 573,649	(27,985,631)
GENERAL REVENUES					
Property Taxes Levied for					
General Purposes					2,338,518
Community Service					183,809
Debt Service					2,424,168
State Aid not Restricted to Specific Purposes					26,569,360
Interest Earnings					3,881
Miscellaneous					10,114
SPECIAL ITEM - Loss on Sale of Building					(922,657)
Total General Revenues and Special Item					<u>31,529,850</u>
Change in Net Position					<u>3,544,219</u>
NET POSITION, BEGINNING OF YEAR					<u>31,537,541</u>
NET POSITION, END OF YEAR					<u>\$ 35,081,760</u>
					<u>\$ 31,537,541</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2013

	General	Food Service	Community Service	Debt Service	Total Governmental Funds	
					2014	2013
ASSETS						
Cash and Investments	\$ 9,348,864	\$ 517,573	\$ 649,687	\$ 986,091	\$ 11,502,215	\$ 8,857,538
Receivables						
Current Property Taxes	1,740,739		177,770	420,861	2,339,370	3,272,514
Delinquent Property Taxes	36,328		3,344	23,185	62,857	74,036
Due from Other Minnesota School Districts	1,184,008	57,734	53,494		1,295,236	295,478
Due from Minnesota Department of Education	4,250,359	28,755	94,596	1,161	4,374,871	6,160,424
Due from Federal through Minnesota Department of Education	1,223,787	314,357	43,159		1,581,303	872,904
Due from Other Governmental Units	78,052	1,669	11,806		91,527	161,954
Other Receivables	146,285	6,732	10,769		163,786	94,465
Prepaid Items	96,070	1,948	3,802		101,820	130,434
Inventories	25,892	22,238			48,130	56,218
Total Assets	\$ 18,130,384	\$ 951,006	\$ 1,048,427	\$ 1,431,298	\$ 21,561,115	\$ 19,975,965
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Salaries and Wages Payable	\$ 3,709,592	\$ 25,580	\$ 122,801	\$	\$ 3,857,973	\$ 3,813,709
Accounts and Contracts Payable	761,051	42,571	23,152		826,774	444,184
Due to Other Governmental Units	202,955		18,805		221,760	203,209
Unearned Revenue	1,445	57,430	18,020		76,895	79,285
Total Liabilities	4,675,043	125,581	182,778	0	4,983,402	4,540,387
Deferred Inflows of Resources						
Property Taxes Levied for Subsequent Year's Expenditures	3,374,748		376,897	893,562	4,645,207	4,618,260
Unavailable Revenue - Delinquent Property Taxes	36,328		3,344	23,185	62,857	74,036
Total Deferred Inflows of Resources	3,411,076	0	380,241	916,747	4,708,064	4,692,296
Fund Balance						
Nonspendable	121,962	24,186	3,802		149,950	186,652
Restricted	485,688	801,239	481,606	514,551	2,283,084	1,792,245
Committed	1,200,000				1,200,000	1,200,000
Assigned	667,581				667,581	483,504
Unassigned	7,569,034				7,569,034	7,080,881
Total Fund Balance	10,044,265	825,425	485,408	514,551	11,869,649	10,743,282
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 18,130,384	\$ 951,006	\$ 1,048,427	\$ 1,431,298	\$ 21,561,115	\$ 19,975,965

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
Total Fund Balances - Governmental Funds	\$ 11,869,649	\$ 10,743,282
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds. Those assets consist of:		
Land and Construction in Progress	813,172	675,188
Land Improvements, Net of Accumulated Depreciation	1,706,231	1,788,851
Buildings and Improvements, Net of Accumulated Depreciation	23,893,565	24,408,042
Equipment and Vehicles, Net of Accumulated Depreciation	1,861,076	1,766,460
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.	62,857	74,036
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(20,833)	(69,167)
Internal service funds are used by management to charge the costs associated with Delta Dental Insurance. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	87,845	89,125
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position. Balances at year-end are:		
Bonds Payable	(1,000,000)	(3,320,000)
Unamortized Premiums	(8,383)	(108,980)
Other Postemployment Benefits Payable	(1,541,595)	(1,249,565)
Pension Benefits Payable	(5,249)	(17,648)
Compensated Absences Payable	<u>(2,636,575)</u>	<u>(3,242,083)</u>
Total Net Position - Governmental Activities	<u>\$ 35,081,760</u>	<u>\$ 31,537,541</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	General	Food Service	Community Service	Debt Service	Total Governmental Funds	
					2014	2013
REVENUES						
Local Sources						
Property Taxes	\$ 2,344,504	\$	\$ 178,562	\$ 2,428,711	\$ 4,951,777	\$ 7,044,463
Interest Earnings	3,033	159	234	455	3,881	3,411
Other	2,263,832	882,591	1,447,000		4,593,423	3,488,800
State Sources	39,839,288	178,885	1,098,601	11,614	41,128,388	37,822,310
Federal Sources	3,123,960	1,925,207	81,582		5,130,749	4,476,297
Total Revenues	47,574,617	2,986,842	2,805,979	2,440,780	55,808,218	52,835,281
EXPENDITURES						
Current						
Administration	1,681,864				1,681,864	1,520,800
District Support Services	1,667,742				1,667,742	1,167,875
Regular Instruction	22,334,421				22,334,421	21,113,134
Vocational Education Instruction	786,712				786,712	741,197
Special Education Instruction	8,218,439				8,218,439	8,029,433
Instructional Support Services	2,366,902				2,366,902	2,224,667
Pupil Support Services	3,667,451		24,521		3,691,972	3,697,208
Sites and Buildings	4,123,080				4,123,080	4,550,980
Fiscal and Other Fixed Costs Programs	155,082				155,082	152,894
Food Service		2,798,755			2,798,755	2,684,560
Community Service			2,654,612		2,654,612	2,417,736
Capital Outlay	1,587,666	78,642	45,337		1,711,645	1,077,348
Debt Service						
Principal				2,320,000	2,320,000	2,315,000
Interest and Fiscal Charges				170,625	170,625	282,975
Total Expenditures	46,589,359	2,877,397	2,724,470	2,490,625	54,681,851	51,975,807
Excess (Deficiency) of Revenues Over (Under) Expenditures	985,258	109,445	81,509	(49,845)	1,126,367	859,474
OTHER FINANCING SOURCES (USES)						
Sale of Equipment						
						1,950
SPECIAL ITEM						
Proceeds from Sale of Land and Building						
Net Change in Fund Balances	985,258	109,445	81,509	(49,845)	1,126,367	879,628
FUND BALANCE, BEGINNING OF YEAR						
	9,059,007	715,980	403,899	564,396	10,743,282	9,863,654
FUND BALANCE, END OF YEAR						
	\$ 10,044,265	\$ 825,425	\$ 485,408	\$ 514,551	\$ 11,869,649	\$ 10,743,282

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 1,126,367	\$ 879,628
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlay is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>		
Capital Outlay	935,831	602,513
Depreciation Expense	(1,275,965)	(1,300,242)
Cost of Capital Assets Disposed	(400,730)	(3,955,140)
Accumulated Deprecation Related to Disposed Capital Assets	376,367	2,981,533
<p>The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is as follows:</p>		
Payment of Bond Principal	2,320,000	2,315,000
Change in Accrued Interest Payable	48,334	47,791
Amortization of Bond Premium	100,597	100,832
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>		
	(11,179)	7,429
<p>In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>		
	325,877	(8,772)
<p>An internal service fund is used to charge the costs associated with Delta Dental insurance. The net change in net position of the fund is reported with governmental activities.</p>		
	<u>(1,280)</u>	<u>21,012</u>
Change in Net Position - Governmental Activities	<u>\$ 3,544,219</u>	<u>\$ 1,691,584</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			Over (Under) Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 4,041,216	\$ 4,044,887	\$ 2,344,504	\$ (1,700,383)	\$ 4,082,013
Interest Earnings	1,612	2,917	3,033	116	2,489
Other	1,336,317	1,767,747	2,263,832	496,085	1,525,673
State Sources	37,521,062	36,888,975	39,839,288	2,950,313	36,715,193
Federal Sources	2,767,253	3,170,733	3,123,960	(46,773)	2,611,431
Total Revenues	45,667,460	45,875,259	47,574,617	1,699,358	44,936,799
EXPENDITURES					
Current					
Administration	1,575,975	1,636,664	1,681,864	45,200	1,520,800
District Support Services	1,346,226	1,713,899	1,667,742	(46,157)	1,167,875
Regular Instruction	23,146,907	22,777,957	22,334,421	(443,536)	21,113,134
Vocational Education Instruction	819,450	810,133	786,712	(23,421)	741,197
Special Education Instruction	8,397,190	8,475,473	8,218,439	(257,034)	8,029,433
Instructional Support Services	2,800,611	2,566,060	2,366,902	(199,158)	2,224,667
Pupil Support Services	3,704,149	3,707,692	3,667,451	(40,241)	3,676,894
Sites and Buildings	4,804,816	4,195,804	4,123,080	(72,724)	4,550,980
Fiscal and Other Fixed Costs Programs	149,857	155,082	155,082		152,894
Capital Outlay					
Administration	3,200	1,500		(1,500)	1,570
District Support Services	5,000	23,119	36,042	12,923	2,843
Regular Instruction	207,723	351,088	315,959	(35,129)	712,084
Vocational Education Instruction	106,110	117,178	103,585	(13,593)	1,585
Special Education Instruction	40,700	50,200	20,115	(30,085)	33,437
Instructional Support Services	181,000	159,641	132,765	(26,876)	112,718
Pupil Support Services		1,789	1,789		
Sites and Buildings	90,318	935,252	977,411	42,159	151,299
Total Expenditures	47,379,232	47,678,531	46,589,359	(1,089,172)	44,193,410
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,711,772)	(1,803,272)	985,258	2,788,530	743,389
OTHER FINANCING SOURCES (USES)					
Sale of Equipment					
					1,000
SPECIAL ITEM					
Proceeds from Sale of Building					
					18,204
Net Change in Fund Balances	<u>\$ (1,711,772)</u>	<u>\$ (1,803,272)</u>	985,258	<u>\$ 2,788,530</u>	762,593
FUND BALANCE, BEGINNING OF YEAR			9,059,007		8,296,414
FUND BALANCE, END OF YEAR			<u>\$ 10,044,265</u>		<u>\$ 9,059,007</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOOD SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013	
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final			
REVENUES					
Local Sources					
Interest Earnings	\$ 10	\$ 154	\$ 159	\$ 5	\$ 139
Other-Primarily Meal Sales	886,000	864,810	882,591	17,781	855,517
State Sources	184,500	180,200	178,885	(1,315)	186,060
Federal Sources	1,827,374	1,852,812	1,925,207	72,395	1,829,506
Total Revenues	<u>2,897,884</u>	<u>2,897,976</u>	<u>2,986,842</u>	<u>88,866</u>	<u>2,871,222</u>
EXPENDITURES					
Current					
Food Service	2,780,732	2,868,909	2,798,755	(70,154)	2,684,560
Capital Outlay					
Food Service	142,000	84,272	78,642	(5,630)	48,407
Total Expenditures	<u>2,922,732</u>	<u>2,953,181</u>	<u>2,877,397</u>	<u>(75,784)</u>	<u>2,732,967</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,848)	(55,205)	109,445	164,650	138,255
OTHER FINANCING SOURCES (USES)					
Sale of Equipment	500				950
Net Change in Fund Balances	<u>\$ (24,348)</u>	<u>\$ (55,205)</u>	109,445	<u>\$ 164,650</u>	139,205
FUND BALANCE, BEGINNING OF YEAR			<u>715,980</u>		<u>576,775</u>
FUND BALANCE, END OF YEAR			<u>\$ 825,425</u>		<u>\$ 715,980</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			Over (Under) Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 350,192	\$ 350,324	\$ 178,562	\$ (171,762)	\$ 385,299
Interest Earnings	50	55	234	179	214
Other-Primarily Tuition and Fees	1,002,378	1,313,573	1,447,000	133,427	1,107,610
State Sources	895,152	929,961	1,098,601	168,640	909,082
Federal Sources	32,531	76,441	81,582	5,141	35,360
Total Revenues	<u>2,280,303</u>	<u>2,670,354</u>	<u>2,805,979</u>	<u>135,625</u>	<u>2,437,565</u>
EXPENDITURES					
Current					
Pupil Support Services	21,157	26,483	24,521	(1,962)	20,314
Community Service	2,408,384	2,593,265	2,654,612	61,347	2,417,736
Capital Outlay					
Community Service	17,200	45,877	45,337	(540)	13,405
Total Expenditures	<u>2,446,741</u>	<u>2,665,625</u>	<u>2,724,470</u>	<u>58,845</u>	<u>2,451,455</u>
Net Change in Fund Balances	<u>\$ (166,438)</u>	<u>\$ 4,729</u>	81,509	<u>\$ 76,780</u>	(13,890)
FUND BALANCE, BEGINNING OF YEAR			<u>403,899</u>		<u>417,789</u>
FUND BALANCE, END OF YEAR			<u>\$ 485,408</u>		<u>\$ 403,899</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2014
 WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2013

	Governmental Activities- Internal Service Fund	
	2014	2013
ASSETS		
Current Assets		
Cash and Investments	\$ 97,875	\$ 96,866
Accounts Receivable	84	
	\$ 97,959	\$ 96,866
Total Assets	\$ 97,959	\$ 96,866
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 10,114	\$ 7,741
Net Position		
Unrestricted	87,845	89,125
Total Liabilities and Net Position	\$ 97,959	\$ 96,866

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities- Internal Service Fund	
	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Charges for Services	\$ 229,328	\$ 229,813
OPERATING EXPENSES		
Dental Insurance Claim Payments	205,900	185,859
General Administration Costs	<u>24,708</u>	<u>22,942</u>
Total Operating Expenses	<u>230,608</u>	<u>208,801</u>
Net Change in Net Position	(1,280)	21,012
NET POSITION, BEGINNING OF YEAR	<u>89,125</u>	<u>68,113</u>
NET POSITION, END OF YEAR	<u>\$ 87,845</u>	<u>\$ 89,125</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities- Internal Service Fund	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 229,299	\$ 229,813
Payments for Administrative Costs	(24,460)	(22,981)
Payments for Dental Fees and Insurance Claims	(203,830)	(185,622)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,009</u>	<u>21,210</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>96,866</u>	<u>75,656</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 97,875</u>	<u>\$ 96,866</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,280)	\$ 21,012
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
(Increase) Decrease in Assets		
Accounts Receivable	(84)	
Increase (Decrease) in Liabilities		
Accounts Payable	<u>2,373</u>	<u>198</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 1,009</u>	<u>\$ 21,210</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	<u>Private- Purpose Trust Fund</u>
ASSETS	
Cash and Investments	\$ 34,419
Interest Receivable	<u>87</u>
Total Assets	<u>\$ 34,506</u>
NET POSITION	
Held in Trust for Scholarships	<u>\$ 34,506</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014

	<u>Private- Purpose Trust Fund</u>
ADDITIONS	
Interest Earnings	\$ 160
DEDUCTIONS	
Scholarship Obligations	<u>750</u>
Change in Net Position	(590)
NET POSITION, BEGINNING OF YEAR	<u>35,096</u>
NET POSITION, END OF YEAR	<u>\$ 34,506</u>

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INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Independent School District #347 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Independent School District #347 Board of Education ("District") is the basic level of government which has the financial accountability and control over all activities related to the public school education for the Willmar Public School District. The District receives funding from local, state, and federal sources and must comply with the expenditure requirements of these funding source entities.

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the District is financially accountable, or for which the exclusion of the component unit would render the financial statements of the District misleading.

The criteria used to determine if the District is financially accountable for a component unit includes whether or not 1) the District appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the District.

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental activities column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except interest earnings) are recorded as revenues when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

It is generally the District's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Description of Funds

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

Major Governmental Funds:

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

The Food Service Special Revenue Fund accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state credits.

The Community Service Special Revenue Fund accounts for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes, federal reimbursements, and state credits.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Major Governmental Funds: (Cont'd)

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Proprietary Fund:

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program. The self-insurance costs are charged to the various funds based on established premium rates.

Fiduciary Fund:

The Private-Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are not recorded.

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY

Cash and Investments:

The District's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Cash and Investments: (Cont'd)

The District may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (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 Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (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) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least 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.

Cash and investments at June 30, 2014, were comprised of demand deposit accounts, non-negotiable certificates of deposit, a money market account and repurchase agreement. Investments are recorded at fair value as determined by quoted market prices.

Cash balances from all funds of the District are pooled and invested, to the extent available, in allowable cash management accounts. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For purposes of the Statement of Cash Flows, the District considers cash in bank and all highly liquid instruments (including restricted assets) to be cash and cash equivalents in its proprietary fund.

The District has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows:

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Cash and Investments: (Cont'd)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations of a state or local government rated "A" or better and revenue obligations of a state or local government rated "AA" or better; unrated general obligation securities of the District; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District does not have a policy that further limits its collateral choices.

Custodial Credit Risk - Investments. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities shall be held in third party safekeeping by an institution designated as custodial agent. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information related to the securities held.

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities shall be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits certain investments to the top two ratings issued by the rating organizations. The District's investment policy states it will comply with Minnesota Statutes Chapter 118A.

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Accounts Receivable:

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Current Property Taxes Receivable:

Current property taxes receivable represent current 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 Receivable:

Delinquent property taxes receivable represent taxes collectible in the years 2007 to 2013 that remain uncollected at June 30, 2014. They are equally offset by a deferred inflows of resources amount in the governmental fund financial statements.

Prepaid Items:

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

Inventories:

Inventories are recorded using the consumption method of accounting and consist of paper, purchased food and supplies. Food, paper and supply purchases are recorded at invoice cost, computed on a first-in, first-out method.

Property Taxes Levied for Subsequent Year's Expenditures:

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2014, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets:

Tangible and intangible capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 for capitalizing tangible and intangible capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Tangible and intangible capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Capital Assets: (Cont'd)

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

The District does not possess any material amounts of intangible capital assets.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and certain sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

Vacation Pay:

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. All outstanding unpaid vacation pay is payable upon termination of employment. At June 30, 2014, unpaid vacation pay totaling \$264,812 is recorded in the financial statements.

Sick Pay:

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Compensated Absences: (Cont'd)

Secretarial Staff:

An unused sick leave payment is available to secretaries who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 800 hours, less any TSA match the District contributed. Employees hired after July 1, 2000 are not eligible for an unused sick leave payment.

Library Clerical Staff and General Paraprofessionals:

An unused sick leave payment is available to library clerical staff and general paraprofessionals who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 120 days.

Special Needs Paraprofessionals and Sign Language Interpreters:

An unused sick leave payment is available to special needs paraprofessionals and sign language interpreters who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2002 will not be eligible for an unused sick leave payment.

Food Service Staff:

An unused sick leave payment is available to food service staff who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 430 hours.

Administrators:

An unused sick leave payment is available to administrators who have completed at least 10 years of continuous service with the District and are at least 55 years of age but not more than 65 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 175 days, less any TSA match the District contributed. Administrators hired after July 1, 2000 are not eligible for an unused sick leave payment.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Compensated Absences: (Cont'd)

Teachers:

An unused sick leave payment is available to teachers who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible teacher will receive an amount equal to 50% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 90 days. Furthermore, an eligible teacher will receive an amount equal to the teacher's number of years of service multiplied by four and the employee's daily rate of pay, not to exceed 100 days. The maximum combined total payment shall not exceed 150 days. Any TSA match the District contributed will be deducted from the payment. Teachers hired after July 1, 2000 are not eligible for this benefit.

Custodians:

Custodians shall earn ten days of severance pay credit for each full year of service, with accumulation to 150 days. Upon resignation of the employee at age 55 or older, the District shall pay severance equal to 100% of an employee's accumulated severance pay days up to a maximum of 150 days, at the employee's daily rate of pay.

Confidential Employees:

An unused sick leave payment is available to confidential employees who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2004 are not eligible for an unused sick leave payment.

Other Postemployment Benefits:

Under the terms of previous employment contracts, when certain qualified employees retired between the ages of 55 to 65, the District provided life and health insurance benefits which would cease when such employees attain the age of 65. This benefit is no longer available to employees; however, the District continues to pay health insurance for qualified individuals that retired when this benefit was in effect. All premiums are funded on a pay-as-you-go basis.

Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Fund Balance:

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

Nonspendable - consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

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

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Education.

Assigned - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board Policy, the Director of Business and Finance is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The District requires restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Board of Education formally adopted a fund balance policy for the General Fund. The District's policy is to strive to maintain a minimum unassigned fund balance of 6% of the General Fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Net Position:

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide, proprietary fund, and fiduciary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide, proprietary fund, and fiduciary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

F. REVENUES AND EXPENDITURES

Revenues:

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

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

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at \$184,153 for the District. For the year ended June 30, 2014, State law is not requiring recognition of the current operating referendum and all other levies other than Career Technical and Reemployment Insurance. Career Technical and Reemployment Insurance tax levies are recognized early based on statutory requirements in the amounts of \$53,302 and \$45,174, respectively.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES (Cont'd)

Revenues: (Cont'd)

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources at the fund level because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2014, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Expenditures:

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Noncurrent liabilities are not recognized as governmental fund expenditures or liabilities.

G. USE OF ESTIMATES

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

H. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which the partial information was derived.

NOTE 2. EXPENDITURES EXCEEDING APPROPRIATIONS

Budgetary control for governmental funds is established by each funds' total appropriations. For the year ended June 30, 2014, the following fund had expenditures that exceeded appropriations:

	<u>Expenditures</u>	<u>Appropriations</u>
Community Service Special Revenue Fund	\$ 2,724,470	\$ 2,665,625

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2014, are as follows:

	<u>Book Balance</u>
<u>Governmental Activities</u>	
Cash and Investments	
Petty Cash	\$ 493
Individual Fund Savings Account	47,093
Non-negotiable Certificates of Deposit	650,279
Pooled Repurchase Agreement	<u>10,902,225</u>
Total Cash and Investments	<u>\$ 11,600,090</u>
<u>Fiduciary Fund</u>	
Cash and Investments	
Pooled Cash in Checking Accounts	\$ 92
Pooled Repurchase Agreement	708
Non-negotiable Certificates of Deposit	<u>33,619</u>
Total Cash and Investments	<u>\$ 34,419</u>

A. DEPOSITS

As of June 30, 2014, the District's deposits were sufficiently covered by insurance through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

B. INVESTMENTS

Custodial Credit Risk. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The underlying securities of the repurchase agreement are held by the investment company who acts as the agent and serves as the custodian of the securities for the District and are uninsured.

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's investment in the repurchase agreement does not have a specific maturity date but is cancelable by giving the institution 30 days notice.

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. More than 5 percent of the District's investments are in the repurchase agreement. The repurchase agreement is 100% of the District's investments.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4. RECEIVABLES

Receivables as of June 30, 2014, are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
<u>Governmental Activities</u>		
Property Taxes		
Current Property Taxes	\$ 2,339,370	\$
Delinquent Property Taxes	62,857	
Total Property Taxes	<u>2,402,227</u>	<u>0</u>
Other Governments		
Due from Other Minnesota School Districts	1,295,236	
Due from Minnesota Department of Education	4,374,871	
Due from Federal through Minnesota Department of Education	1,581,303	
Due from Other Governmental Units	91,527	
Total Other Governments	<u>7,342,937</u>	<u>0</u>
Other		
Other Receivables	<u>163,870</u>	
Total Governmental Activities	<u>\$ 9,909,034</u>	<u>\$ 0</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 617,518	\$	\$	\$ 617,518
Construction in Progress	57,670	532,209	(394,225)	195,654
Total Capital Assets, Not Being Depreciated	675,188	532,209	(394,225)	813,172
Capital Assets, Being Depreciated				
Land Improvements	3,875,055	56,000		3,931,055
Buildings and Improvements	46,494,645	394,225		46,888,870
Equipment	4,584,184	347,622	(400,730)	4,531,076
Total Capital Assets, Being Depreciated	54,953,884	797,847	(400,730)	55,351,001

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5. CAPITAL ASSETS (Cont'd)

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Governmental Activities</u> (Cont'd)				
Less Accumulated Depreciation for				
Land Improvements	\$ (2,086,204)	\$ (138,620)	\$	\$ (2,224,824)
Buildings and Improvements	(22,086,603)	(908,702)		(22,995,305)
Equipment	(2,817,724)	(228,643)	376,367	(2,670,000)
Total Accumulated Depreciation	<u>(26,990,531)</u>	<u>(1,275,965)</u>	<u>376,367</u>	<u>(27,890,129)</u>
Total Capital Assets Being Depreciated, Net	<u>27,963,353</u>	<u>(478,118)</u>	<u>(24,363)</u>	<u>27,460,872</u>
Governmental Activities Net Capital Assets	<u>\$ 28,638,541</u>	<u>\$ 54,091</u>	<u>\$ (418,588)</u>	<u>\$ 28,274,044</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Administration	\$ 113
District Support Services	1,500
Regular Instruction	881,102
Vocational Education Instruction	9,654
Special Education Instruction	7,736
Instructional Support Services	14,539
Pupil Support Services	47,185
Sites and Buildings	292,647
Fiscal and Other Fixed Cost Programs	862
Community Service	<u>20,627</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 1,275,965</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6. LONG-TERM DEBT

A. COMPONENTS OF LONG-TERM DEBT

The District has issued general obligation school building bonds to refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

	<u>Original Amount Issued</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Balance Outstanding</u>
<u>Governmental Activities</u>				
General Obligation Bonds				
Refunding Bonds, Series 2005A	\$ 16,265,000	02/01/15	5.00%	\$ 1,000,000
Bond Premium - Net				8,383
Other Postemployment Benefits Payable				1,541,595
Pension Benefits Payable				5,249
Compensated Absences Payable				<u>2,636,575</u>
Total Governmental Activities				<u>\$ 5,191,802</u>

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments required to retire long-term debt, not including other postemployment benefits payable, pension benefits payable and compensated absences payable are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$ 1,000,000</u>	<u>\$ 50,000</u>

C. DESCRIPTION OF LONG-TERM DEBT

General Obligation Bonds:

On November 1, 2005, the District issued \$16,265,000 of General Obligation Refunding Bonds, Series 2005A to advance refund the General Obligation Refunding Bonds, Series 1997A. The bonds are due in varying annual installments each February 1 from February 1, 2007 through February 1, 2015, with interest at a rate of 5.00% due semi-annually on February 1 and August 1. The District reduced its total debt service payments by \$1,098,563 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$916,043. Future ad valorem tax levies are dedicated to the retirement of these bonds.

Other Postemployment Benefits Payable:

Other postemployment benefits payable consist of postemployment health insurance benefits available to employees as specified in the employee's employment contract upon retirement. Health benefits have been paid by the General Fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6. LONG-TERM DEBT (Cont'd)

C. DESCRIPTION OF LONG-TERM DEBT (Cont'd)

Pension Benefits Payable:

Pension benefits payable consist of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General and Special Revenue Funds.

Compensated Absences Payable:

Compensated absences payable consists of unused vacation at June 30, 2014 and other compensated absences paid at retirement for certain employees based on the employment contract. In the past, compensated absences have been paid by the General, Food Service, and the Community Service Funds.

D. CHANGES IN LONG-TERM DEBT

The following table summarizes changes in long-term debt during the year ended June 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds Payable	\$ 3,320,000	\$	\$ (2,320,000)	\$ 1,000,000	\$ 1,000,000
Bond Premium	108,980		(100,597)	8,383	8,383
Other Postemployment Benefits Payable	1,249,565	770,299	(478,269)	1,541,595	
Pension Benefits Payable	17,648	32,053	(44,452)	5,249	
Compensated Absences Payable	3,242,083	943,553	(1,549,061)	2,636,575	450,187
Total Governmental Activities	<u>\$ 7,938,276</u>	<u>\$ 1,745,905</u>	<u>\$ (4,492,379)</u>	<u>\$ 5,191,802</u>	<u>\$ 1,458,570</u>

In addition, the District has available a \$750,000 line of credit with a local financial institution. The line bears interest at variable rates (4.5% at June 30, 2014) and is unsecured. This line matures on December 31, 2014. There is no balance outstanding under this arrangement as of June 30, 2014.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. FUND BALANCE

The following is a summary of fund balance components at June 30, 2014.

	General	Food Service	Community Service	Debt Service	Total
Nonspendable					
Prepaid Items	\$ 96,070	\$ 1,948	\$ 3,802	\$	\$ 101,820
Inventories	25,892	22,238			48,130
Total Nonspendable	121,962	24,186	3,802	0	149,950
Restricted					
Operating Capital	141,963				141,963
Staff Development	281,060				281,060
Community Education			310,608		310,608
ECFE			7,644		7,644
School Readiness			68,337		68,337
Gifted and Talented	56,211				56,211
Adult Basic Education			66,218		66,218
Achievement/ Integration	3,605				3,605
Safe Schools	2,849				2,849
Other Fund Activities		801,239	28,799	514,551	1,344,589
Total Restricted	485,688	801,239	481,606	514,551	2,283,084
Committed					
Severance	1,200,000				1,200,000
Assigned					
Third Party Billing	667,581				667,581
Unassigned					
	7,569,034				7,569,034
	<u>\$ 10,044,265</u>	<u>\$ 825,425</u>	<u>\$ 485,408</u>	<u>\$ 514,551</u>	<u>\$ 11,869,649</u>

Fund Equity:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the potential restricted fund balances for the governmental funds:

A. RESTRICTED FOR GIFTED AND TALENTED

The fund balance restriction represents accumulated resources available to provide gifted and talented programming in accordance with funding made available for that purpose.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. FUND BALANCE (Cont'd)

B. RESTRICTED FOR OPERATING CAPITAL

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

C. RESTRICTED FOR COMMUNITY EDUCATION

The fund balance restriction represents accumulated resources available to provide general community education programming.

D. RESTRICTED FOR ADULT BASIC EDUCATION

The fund balance restriction represents accumulated resources available to provide adult basic education programming in accordance with funding made available for that purpose.

E. RESTRICTED FOR SAFE SCHOOLS

The fund balance restriction represents unspent resources available from the safe schools levy.

F. RESTRICTED FOR STAFF DEVELOPMENT

In accordance with state statute, the District is required to restrict 2.0% of basic General Education revenue for staff development. The cumulative excess of such revenues over staff development expenditures is reported as a restriction of fund balance in the General Fund.

G. RESTRICTED FOR ECFE (EARLY CHILDHOOD AND FAMILY EDUCATION)

This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

H. RESTRICTED FOR SCHOOL READINESS

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

I. RESTRICTED FOR ACHIEVEMENT AND INTEGRATION

The fund balance restriction represents unspent resources available to provide achievement and integration programming.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION

Plan Description:

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA) which is a cost-sharing, multiple-employer retirement plan. TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

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

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

With these provisions:

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3% 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-

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.4 percent per year.

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA web site www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
651.296.2409
800.657.3669

Funding Policy:

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated members and 11.0 percent for Basic members during fiscal year 2014. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2013 was approximately \$3.92 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2012 and June 30, 2011 were \$3.87 billion and \$3.84 billion, respectively.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

The District contributions for the years ending June 30, 2014, 2013, and 2012 were \$1,419,981, \$1,295,268, and \$1,103,165, respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased in over a four-year period beginning July 1, 2011. Employee and employer contribution rates increased by 0.5 percent on July 1 of each year of the four-year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA

Plan Description:

All full-time and certain part-time employees (other than teachers) of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA (Cont'd)

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in fiscal year 2014. In fiscal year 2014, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013, and 2012, were \$561,184, \$484,556, and \$447,180, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 9. OTHER POSTEMPLOYMENT BENEFIT PLAN

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This implementation allows the District to report its liability for other postemployment benefits consistent with established accounting principles generally accepted in the United States of America and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

A. PLAN DESCRIPTION

The District operates a single-employer defined benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the District's health insurance plan. There are 500 active participants and 42 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available report.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9. OTHER POSTEMPLOYMENT BENEFIT PLAN (Cont'd)

B. FUNDING POLICY

Contribution requirements are also negotiated between the District and union representatives. The District contributes 0% - 100% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2014, the District contributed \$478,269 to the Plan. The Plan is financed on a pay-as-you-go basis.

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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities 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	\$ 792,578
Interest on Net OPEB Obligation	49,983
Adjustment to Annual Required Contribution	<u>(72,262)</u>
Annual OPEB Cost (Expense)	770,299
Contributions Made	<u>(478,269)</u>
Increase (Decrease) in Net OPEB Obligation	292,030
Net OPEB Obligation - Beginning of Year	<u>1,249,565</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,541,595</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan and the net OPEB obligation for 2014 and the preceding two years was:

Fiscal Year Ended	Annual OPEB Cost	Annual Plan Sponsor Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 770,299	\$ 478,269	62%	\$ 1,541,595
6/30/2013	619,297	473,805	77%	1,249,565
6/30/2012	620,115	497,928	80%	1,104,073

D. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$6,924,061 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,924,061. The covered payroll (annual payroll of active employees covered by the Plan) was \$23,003,885 and the ratio of the UAAL to the covered payroll of 30.1%.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9. OTHER POSTEMPLOYMENT BENEFIT PLAN (Cont'd)

D. FUNDED STATUS AND FUNDING PROGRESS (Cont'd)

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

E. ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumption included a 4.0% 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 8.0% reduced by decrements to an ultimate rate of 5.0% after six years. The inflation rate is 3.0%. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

NOTE 10. SUPPLEMENTAL PENSION PLAN

The District engaged an actuary to determine the District's liability for its supplemental pension plan in accordance with Governmental Accounting Standards Board (GASB) Statement No. 27 as of July 1, 2013.

A. PLAN DESCRIPTION

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10. SUPPLEMENTAL PENSION PLAN (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

As described in Note 1.E., teachers who have completed at least 15 years of continuous service with the District and are at least 55 years of age are eligible for a severance payment. A portion of that payment is based on the teacher's number of years of service multiplied by four and the employee's daily rate of pay. Twenty-five percent of this payment is paid to the employee's Special Pay Deferral Plan and the remaining 75% is placed into the employee's Health Care Savings Plan. The 25% is considered a pension benefit.

The Superintendent is eligible for a pension benefit upon termination of employment of 10 days pay for each year of service, up to 100 days.

B. FUNDING POLICY

Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payment of future benefits. The General Fund and Special Revenue Funds are used for funding of all pension benefits. The District makes all contributions.

C. ANNUAL PENSION COST AND NET PENSION OBLIGATION

The District's annual pension cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 27. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual pension cost for the year, the amount actually paid from the plan, and changes in the District's net pension obligation.

Annual Required Contribution	\$ 32,367
Interest on Net Pension Obligation	706
Adjustment to Annual Required Contribution	<u>(1,020)</u>
Annual Pension Cost (Expense)	32,053
Contributions Made	<u>(44,452)</u>
Increase (Decrease) in Net Pension Obligation	(12,399)
Net Pension Obligation - Beginning of Year	<u>17,648</u>
Net Pension Obligation - End of Year	<u><u>\$ 5,249</u></u>

The District's annual pension cost, the percentage of the annual pension cost contributed to the Plan and the net pension obligation for 2014 and the preceding two years was:

Fiscal Year Ended	Annual Pension Cost	Annual Plan Sponsor Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2014	\$ 32,053	\$ 44,452	139%	\$ 5,249
6/30/2013	38,353	29,062	76%	17,648
6/30/2012	39,126	46,988	120%	8,357

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10. SUPPLEMENTAL PENSION PLAN (Cont'd)

D. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$342,681, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$342,681. The annual covered payroll for active employees covered by the Plan in the actuarial valuation was \$23,003,885 for a ratio of UAAL to covered payroll of 1.5%.

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 and mortality. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumption included a 4.0% 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 inflation rate is 3.0%. The projected salary increase is 3% per year. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11. SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,200 per participant. The District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at year end. The District recorded expenses of \$230,608 for the year ended June 30, 2014 which includes administrative costs of \$24,708.

The liability for unpaid claims is included in the Internal Service Fund as accounts payable.

	June 30,	
	2014	2013
Unpaid Claims, Beginning of Year	\$ 7,741	\$ 7,543
Incurred Claims	205,900	185,859
Claims Payments (cash basis)	<u>(203,527)</u>	<u>(185,661)</u>
Unpaid Claims, End of Year	<u>\$ 10,114</u>	<u>\$ 7,741</u>

NOTE 12. OPERATING LEASES

The District is committed under long-term operating leases for the rental of office equipment and vehicles. Office equipment is leased under varying terms, with leases running through December 2016. Vehicles are leased under varying terms with leases running through July 2015.

Total lease expenditures include the following:

Maintenance equipment	\$ 7,920
Facilities	15,162
Office equipment	154,106
Computer equipment	206,417
Vehicles	7,351
Miscellaneous rental	<u>37,417</u>
Total	<u>\$ 428,373</u>

Future minimum lease payments due under existing operating leases are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 224,677
2016	110,146
2017	<u>2,956</u>
Total	<u>\$ 337,779</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13. COMMITMENTS AND CONTINGENCIES

A. FEDERAL AND STATE PROGRAMS

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

B. CONSTRUCTION COMMITMENTS

The District has an active construction project as of June 30, 2014. The project includes the following:

	<u>Total Contract</u>	<u>Contract Remaining</u>
Senior High Roof - Pool/Mechanical Room	\$ 195,533	\$ 48,645

NOTE 14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers' compensation. To mitigate these risks, the District has obtained commercial property and casualty insurance and workers' compensation coverage. The District pays an annual premium with no additional assessments.

The District has joined together with other school districts in Minnesota in the Southwest - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

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

NOTE 15. JOINT POWERS AGREEMENT

The District and the City of Willmar have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational and recreational services to members of the community. It is the intention of the parties to offer these services collaboratively and to coordinate their service programs in order to eliminate duplication of services and in order to maximize the effectiveness of the services provided. The Joint Powers Entity is governed by the Joint Powers Board, which includes five members appointed by the City Council, five members appointed by the School Board, and two students, one recommended by the Senior High School Student Council and one recommended by the Middle School Student Council, to be approved and appointed by the City Council and School Board. One School Board member, one City Council member, the City Administrator and the Superintendent of Schools shall serve as ex-officio members to the Board.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 15. JOINT POWERS AGREEMENT (Cont'd)

The District employs an individual to administer community education, which is in the Community Service Fund. The City is responsible for providing adult and youth recreation programs, adult and youth athletic programs and administer the daily operations of the Dorothy A. Olson Aquatic Center. The District is responsible for providing necessary facilities, services, and employees to provide Early Childhood and Adult Basic Education programs. This agreement is perpetual but may be canceled upon six months written notice by either party.

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Pension</u>						
7/1/2013	\$	\$ 342,681	\$ 342,681	0.0%	\$ 23,003,885	1.5%
7/1/2011		406,912	406,912	0.0%	22,744,318	1.8%
7/1/2009		606,725	606,725	0.0%	22,444,970	2.7%
<u>Other Postemployment Benefits</u>						
7/1/2013	\$	\$ 6,924,061	\$ 6,924,061	0.0%	\$ 23,003,885	30.1%
7/1/2011		5,957,004	5,957,004	0.0%	22,744,318	26.2%
7/1/2009		6,228,886	6,228,886	0.0%	22,444,970	27.8%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net Obligation
<u>Pension</u>				
2014	\$ 32,053	\$ 44,452	138.7%	\$ 5,249
2013	38,353	29,062	75.8%	17,648
2012	39,415	46,988	119.2%	8,357
2011	69,608	81,036	116.4%	16,219
2010	67,980	39,831	58.6%	28,149
<u>Other Postemployment Benefits</u>				
2014	\$ 770,299	\$ 478,269	62.1%	\$ 1,541,595
2013	638,983	473,805	74.1%	1,249,565
2012	637,623	497,928	78.1%	1,104,073
2011	738,086	385,054	52.2%	981,886
2010	701,059	339,551	48.4%	640,270
2009	506,567	222,745	44.0%	283,822

The District implemented GASB Statement No. 27 for fiscal year ended June 30, 2010. The District implemented GASB Statement No. 45 for fiscal year ended June 30, 2009. Information for prior years is not available.

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SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			Over (Under) Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 2,433,589	\$ 2,434,212	\$ 2,428,711	\$ (5,501)	\$ 2,577,151
Interest Earnings			455	455	569
State Sources	11,975	11,614	11,614		11,975
Total Revenues	<u>2,445,564</u>	<u>2,445,826</u>	<u>2,440,780</u>	<u>(5,046)</u>	<u>2,589,695</u>
EXPENDITURES					
Debt Service					
Bond Principal	2,320,000	2,320,000	2,320,000		2,315,000
Bond Interest	166,000	166,000	166,000		280,700
Paying Agent Fees and Other	2,050	4,800	4,625	(175)	2,275
Total Expenditures	<u>2,488,050</u>	<u>2,490,800</u>	<u>2,490,625</u>	<u>(175)</u>	<u>2,597,975</u>
Net Change in Fund Balances	<u>\$ (42,486)</u>	<u>\$ (44,974)</u>	(49,845)	<u>\$ (4,871)</u>	(8,280)
FUND BALANCE, BEGINNING OF YEAR			<u>564,396</u>		<u>572,676</u>
FUND BALANCE, END OF YEAR			<u>\$ 514,551</u>		<u>\$ 564,396</u>

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REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2014

	<u>Audited</u>	<u>UFARS</u>	<u>Difference</u>		<u>Audited</u>	<u>UFARS</u>	<u>Difference</u>
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	\$ 47,574,617	\$ 47,574,617	\$	Total Revenue	\$	\$	\$
Total Expenditures	46,589,359	46,589,360	(1)	Total Expenditures			
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	121,962	121,962		460 Nonspendable			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	281,060	281,059	1	407 Capital Projects Levy			
405 Deferred Maintenance				409 Alternative Facilities Program			
406 Health and Safety	(150,543)	(150,543)		413 Project Funded by COP/LP			
407 Capital Projects Levy				<i>Restricted:</i>			
408 Cooperative Revenue				464 Restricted			
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned			
417 Taconite Building Maintenance							
423 Certain Teacher Programs				<u>07 DEBT SERVICE</u>			
424 Operating Capital	141,963	141,963		Total Revenue	2,440,780	2,440,780	
426 \$25 Taconite				Total Expenditures	2,490,625	2,490,625	
427 Disabled Accessibility				<i>Nonspendable:</i>			
428 Learning & Development				460 Nonspendable			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt. Programs				425 Bond Refundings			
436 State Approved Alt. Programs				451 QZAB and QSCB Payments			
438 Gifted & Talented	56,211	56,211		<i>Restricted:</i>			
441 Basic Skills Programs				464 Restricted	514,551	514,551	
445 Career & Technical Programs				<i>Unassigned:</i>			
448 Achievement and Integration	3,605	3,605		463 Unassigned			
449 Safe Schools - Crime Levy	2,849	2,849					
450 Transition for Pre-Kindergarten				<u>08 TRUST</u>			
451 QZAB and QSCB Payments				Total Revenue	160	160	
452 OPEB Liab Not Held in a Trust				Total Expenditures	750	750	
453 Unfunded Sev & Retirement Levy				<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned	34,506	34,506	
464 Restricted							
<i>Committed:</i>				<u>20 INTERNAL SERVICE</u>			
418 Separation/Retirement Benefits	1,200,000	1,200,000		Total Revenue	229,328	229,328	
461 Committed				Total Expenditures	230,608	230,608	
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned	667,581	667,581		422 Unassigned	87,845	87,845	
<i>Unassigned:</i>							
422 Unassigned	7,719,577	7,719,577		<u>25 OPEB REVOCABLE TRUST</u>			
<u>02 FOOD SERVICE</u>				Total Revenue			
Total Revenue	2,986,842	2,986,842		Total Expenditures			
Total Expenditures	2,877,397	2,877,396	1	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned			
460 Nonspendable	24,186	24,187	(1)	<u>45 OPEB IRREVOCABLE TRUST</u>			
<i>Restricted/Reserved:</i>				Total Revenue			
452 OPEB Liab Not Held in a Trust				Total Expenditures			
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted	801,239	801,239		422 Unassigned			
<i>Unassigned:</i>							
463 Unassigned				<u>47 OPEB DEBT SERVICE</u>			
<u>04 COMMUNITY SERVICE</u>				Total Revenue			
Total Revenue	2,805,979	2,805,979		Total Expenditures			
Total Expenditures	2,724,470	2,724,470		<i>Restricted:</i>			
<i>Nonspendable:</i>				464 Restricted			
460 Nonspendable	3,802	3,802		<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				463 Unassigned			
426 \$25 Taconite							
431 Community Education	310,608	310,608					
432 E.C.F.E	7,644	7,644					
444 School Readiness	68,337	68,337					
447 Adult Basic Education	66,218	66,218					
452 OPEB Liab Not Held in a Trust							
<i>Restricted:</i>							
464 Restricted	28,799	28,799					
<i>Unassigned:</i>							
463 Unassigned							

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor\ Pass-Through Grantor\ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Expenditures
U.S. Department of Agriculture			
Minnesota Department of Education			
Child Nutrition Cluster:			
National School Lunch Program:			
Regular Lunch	10.555	1-347-000	\$ 192,043
Free and Reduced Lunch	10.555	1-347-000	864,590
After School Snack	10.555	1-347-000	18,857
Commodities Rebates	10.555	1-347-000	9,293
Food Distribution (Commodities-noncash)	10.555	1-347-000	143,330
Special Milk Program for Children	10.556	1-347-000	377
School Breakfast Program	10.553	1-347-000	574,477
Total Child Nutrition Cluster			<u>1,802,967</u>
Fresh Fruit and Vegetable Program	10.582	1-347-000	122,240
Total U.S. Department of Agriculture			<u>1,925,207</u>
U.S. Department of Education			
Minnesota Department of Education			
Title I Grants to Local Educational Agencies	84.010	N/A	1,253,385
Title I, Part A - School Improvement Grants	84.377A	N/A	594,164
Adult Education - Basic Grants to States	84.002	N/A	41,676
Title I, Part C - Migrant Education_State Grant Program	84.011	N/A	614
Title II, Part A - Improving Teacher Quality State Grants	84.367	N/A	195,174
Title III, Part A - English Language Acquisition Grants	84.365	N/A	97,357
Title VI, Part B - Rural and Low Income Schools	84.358B	N/A	91,038
Race to the Top Early Learning Challenge	84.412A	N/A	39,906
SW/WC Service Cooperative			
Special Education Cluster:			
Special Education_Grants to States:			
Federal Flow Through, P.L. 108-446	84.027	N/A	831,156
Special Education_Preschool Grants	84.173	N/A	31,394
Total Special Education Cluster			<u>862,550</u>
Ridgewater College			
Career and Technical Education - Basic Grants to States	84.048A	N/A	25,510
Total U.S. Department of Education			<u>3,201,374</u>
Total Federal Awards			<u>\$ 5,126,581</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

NOTE 1. REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Independent School District #347, Willmar, Minnesota. The District's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Independent School District #347 under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the District.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 4. FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

NOTE 5. SUBRECIPIENTS

During the year ended June 30, 2014, the District did not pass any federal money to subrecipients.

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To The Board of Education
Independent School District #347
Willmar, 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 #347, Willmar, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2014.

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

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

The purpose of this report is 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014

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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

To The Board of Education
Independent School District #347
Willmar, 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 #347, Willmar, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Willmar Office 331 Third Street SW, Ste. 2 P.O. Box 570 Willmar, MN 56201 Phone: (320) 235-3311 Toll Free: (888) 388-1040	Benson Office 1209 Pacific Avenue Ste. 3 Benson, MN 56215 Phone: (320) 843-2302	Morris Office 401 Atlantic Avenue Morris, MN 56267 Phone: (320) 589-2602	Litchfield Office 820 Sibley Avenue N Litchfield, MN 55355 Phone: (320) 693-7975	St. Cloud Office 2351 Connecticut Avenue Ste. 110 Sartell, MN 56377 Phone: (320) 252-7565 Toll Free: (800) 862-1337
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Compliance and Other Matters

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

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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014



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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

To the Board of Education
Independent School District #347
Willmar, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District #347'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 the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Program

In our opinion, the District 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, 2014.

Report on Internal Control Over Compliance

Management of Independent School District #347 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

I. SUMMARY OF AUDITOR'S RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Noncompliance material to financial statements noted? No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major program(s): Unmodified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

C. IDENTIFICATION OF MAJOR PROGRAMS

CFDA No.: 84.377A
Name of Federal Program or Cluster: Title I, Part A - School Improvement Grants

CFDA No.: 84.027, 84.173
Name of Federal Program or Cluster: Special Education Cluster

Dollar threshold used to distinguish between Types A and B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

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

None

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

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STUDENT ACTIVITIES

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INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

Report on the Financial Statements

We have audited the accompanying Statements of Cash Receipts and Disbursements of the Student Activity Fund of Independent School District #347 for the year ended June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

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

As described in Note 1, the financial statements are prepared by the Independent School District #347 in accordance with the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the Minnesota Department of Education.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District #347 as of June 30, 2014, and the respective changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the "Basis for Qualified Opinion on Regulatory Basis" paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District #347 as of June 30, 2014, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated October 13, 2014, on our consideration of the District's compliance with provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
MIDDLE SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2014

	Balance July 1, 2013	Transfers and Receipts	Disbursements	Balance June 30, 2014
Musical	\$	\$ 1,018	\$ 872	\$ 146
Pop Concert T-Shirts	104	1,873	1,958	19
Yearbook	3,296	13,607	16,513	390
Student Council	1,686	2,403	3,299	790
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 5,086	\$ 18,901	\$ 22,642	\$ 1,345
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 SENIOR HIGH ACTIVITY FUND
 YEAR ENDED JUNE 30, 2014

	Balance July 1, 2013	Transfers and Receipts	Disbursements	Balance June 30, 2014
Cardettes	\$ 1,240	\$ 3,880	\$ 4,328	\$ 792
F.F.A.	1,042	650	600	1,092
General Account (Bank Interest/Expenses)		328	328	
Cross Country	4,474	13,562	7,478	10,558
National Honor Society	1,136	1,821	1,888	1,069
Nordic Ski	4	4,903	4,806	101
Seventh Rendition	25,047	48,736	38,113	35,670
Student Council	2,539	14,334	13,666	3,207
"W" Fund	629	1,226	581	1,274
Wihisean	696	1,402	980	1,118
Orchestra	4,560	41	289	4,312
Willmar Athletics	2,919	5,981	8,582	318
Final Concessions	6,291	14,089	16,716	3,664
Knowledge Bowl	914	921	1,545	290
High Mileage	288	450	486	252
Gymnastics	2,928	4,389	3,934	3,383
Speech	126		126	
Fastpitch Softball	3,253	2,500	4,610	1,143
Tennis	4,814	3,326	7,667	473
Volleyball	7,591	9,563	8,932	8,222
Track	5,858	7,458	7,024	6,292
Girls Soccer	974	11,988	12,493	469
Boys Soccer	612	5,123	5,662	73
Boys Swim	674	1,840	2,240	274
Girls Swim	4,825	6,841	7,734	3,932
Wrestling	1,056	3,025	2,348	1,733
Boys Basketball	946	1,090	1,491	545
Girls Basketball	419	1,768	1,997	190
Boys Hockey	113	1,662	1,672	103
Girls Hockey	9	1,490	1,432	67
Boys Baseball	3,300	5,550	5,634	3,216
Boys Golf	1,497	725	825	1,397
Girls Golf	453	725	334	844
Boys Tennis		4,500	4,098	402
Football	566	16,476	14,890	2,152
First Robotics	3,237	10,983	9,308	4,912
Special Needs		724	353	371
Total	\$ 95,030	\$ 214,070	\$ 205,190	\$ 103,910

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Funds are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2. COLLATERAL

Cash balances are held in demand accounts. In accordance with Minnesota Statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance.

As of June 30, 2014, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

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INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES COMPLIANCE

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

We have audited Independent School District #347's compliance with the types of compliance requirements described in the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49 for the year ended June 30, 2014. The *Manual for Activity Fund Accounting* provides uniform financial accounting and reporting standards for student activities.

Management's Responsibility

Management is responsible for compliance with the requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit. 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 the *Manual for Activity Fund Accounting*. Those standards and the *Manual for Activity Fund Accounting* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the District occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the *Manual for Activity Fund Accounting*. Our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the Student Activity Fund for the year ended June 30, 2014.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

October 13, 2014

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITIES FINDINGS
YEAR ENDED JUNE 30, 2014

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

FINDING 2013-01 *MANUAL FOR ACTIVITY FUND ACCOUNTING FOR MINNESOTA SCHOOL DISTRICTS*
(MAFA) NONCOMPLIANCE

Condition: The Speech Club has been inactive for more than one year.

Resolution: The District implemented procedures to ensure compliance for the year ended June 30, 2014.