

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

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

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INDEPENDENT SCHOOL DISTRICT #347

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INDEPENDENT SCHOOL DISTRICT #347

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INDEPENDENT SCHOOL DISTRICT #347
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2011

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Wayne Lenzmeier	12/31/2012
Vice-Chairperson	Mike Reynolds	12/31/2012
Clerk	Sandi Unger	12/31/2012
Treasurer	Eric Roberts	12/31/2012
Director	Dan Croonquist	12/31/2014
Director	Linda Mathiasen	12/31/2014
Director	Nathan Streed	12/31/2014
<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

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2010 financial statements and, in our report dated November 8, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, and cash flows, where applicable, 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 conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011. Adoption of the provisions of this statement results in significant changes to the classifications of the components of fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The individual fund financial statement, UFARS Compliance Table, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 them.

Conway, Deuth & Schmiesing, PLLP

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

November 14, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2011

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, 2011. 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 2010-2011 fiscal year include the following:

- The General Fund unassigned fund balance again exceeded the School Board's fund balance goal of 6% of expenditures with a fund balance of \$5,900,273, equivalent to 14.2% of expenditures. The fund balance also exceeded the revised budget estimate of \$5,137,511 or 12.1% of expenditures. The additional fund balance is attributed to the settlement of the lawsuit related to the high school building and to strategic under spending of budgeted expenditures in the areas of purchased services and supplies. The increased fund balance puts the district in a position to better weather the economical financial storm that continues to impact revenue and cash flow.
- Net Assets increased 16.0% from the prior year due to the decrease of current and long-term liabilities and the increased unassigned fund balance as discussed above.
- The combined Governmental Funds fund balance increased by 26.2%, or \$2,092,392.
- The overall net decrease to the District's long-term liabilities was \$1,893,942, or 12.0%.
- Enrollment decreased by 45 ADM's (Average Daily Membership) in FY 2011. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level.
- Four Financial Awards: The District's comprehensive annual financial report for the year ended June 30th, 2010 was awarded several prestigious financial reporting awards by the Government Finance Officers Association of the United States and Canada (GFOA) and the Association of School Business Officials International (ASBO). The District's Original 2010-11 Budget received the ASBO Meritorious Budget Award. The District also received the Minnesota Department of Education 2011 School Finance Award.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2011

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 Assets 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 Assets 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 Assets includes **all** of the District's assets and liabilities. 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 assets** and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or **position**.

- Over time, increases or decreases in the District's net assets 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, 2011

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** – Most of the District's basic services are included here, such as 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 Assets and Statement of Changes in Fiduciary Net Assets. 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, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's *combined* net assets were \$26,233,525 on June 30, 2011. This was an increase of 16.00% from the previous year (see Table A-1 below).

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

	Governmental Activities		Percentage Change
	2011	2010	
Current and Other Assets	\$ 19,410,640	\$ 18,922,373	2.58%
Capital Assets	30,068,631	30,423,263	-1.17%
Total Assets	49,479,271	49,345,636	0.27%
Current Liabilities	\$ 9,344,615	\$ 10,935,245	-14.55%
Long-term Liabilities	13,901,131	15,795,073	-11.99%
Total Liabilities	23,245,746	26,730,318	-13.04%
Net Assets			
Invested in Capital Assets Net of Related Debt	\$ 21,922,820	\$ 20,076,453	9.20%
Restricted	2,714,707	1,767,076	53.63%
Unrestricted	1,595,998	771,789	106.79%
Total Net Assets	\$ 26,233,525	\$ 22,615,318	16.00%

The largest portion of the District's net assets (83.6%) 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 assets 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, 2011**

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 Assets**

	Governmental Activities for the fiscal year ended June 30,		Percentage Change
	2011	2010	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,310,914	\$ 2,258,163	2.34%
Operating Grants and Contributions	17,035,838	18,501,962	-7.92%
Capital Grants and Contributions	561,149	605,372	-7.31%
<u>General Revenues</u>			
Property Taxes	8,464,670	6,352,927	33.24%
Unrestricted State Aid	21,954,037	21,636,016	1.47%
Investment Earnings	39,820	46,183	-13.78%
Other	332,417	12,484	2562.74%
Total Revenues	<u>50,698,845</u>	<u>49,413,107</u>	2.60%
Expenses			
Administration	\$ 1,524,753	\$ 1,653,919	-7.81%
District Support Services	1,115,708	949,578	17.50%
Regular Instruction	21,090,133	20,103,140	4.91%
Vocational Education Instruction	801,446	883,686	-9.31%
Special Education Instruction	7,557,654	7,752,733	-2.52%
Instructional Support Services	2,411,922	2,243,858	7.49%
Pupil Support Services	3,457,085	3,538,480	-2.30%
Sites and Buildings	4,215,561	3,508,797	20.14%
Fiscal and Other Fixed Costs Programs	127,098	130,321	-2.47%
Food Service	2,390,350	2,359,800	1.29%
Community Service	2,257,943	2,064,867	9.35%
Interest and Fiscal Charges on Long-Term Liabilities	363,922	464,890	-21.72%
Total Expenses	<u>47,313,575</u>	<u>45,654,069</u>	3.63%
Excess (Deficiency) before Special Item	3,385,270	3,759,038	-9.94%
Special Item			
Gain on Sale of Land and Building	232,937		100.00%
Change in Net Assets			
Beginning Net Assets	<u>22,615,318</u>	<u>18,856,280</u>	19.94%
Ending Net Assets	<u>\$ 26,233,525</u>	<u>\$ 22,615,318</u>	16.00%

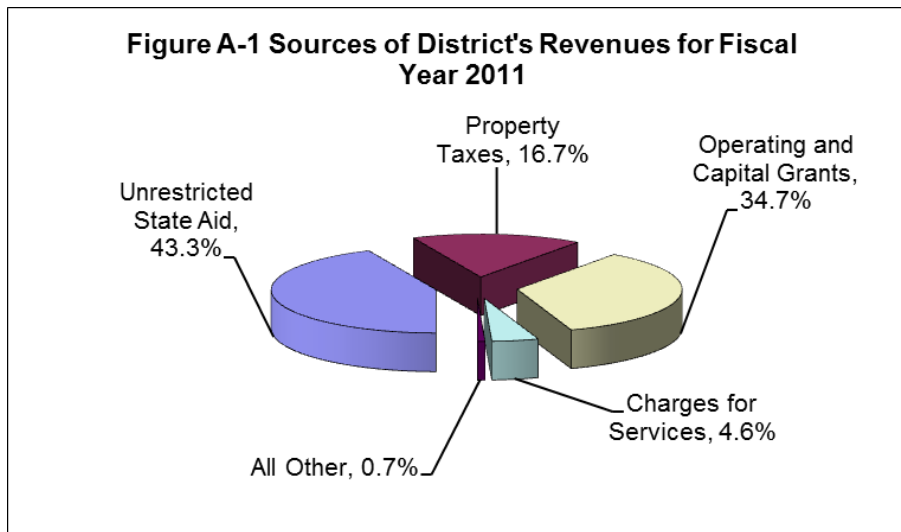
INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

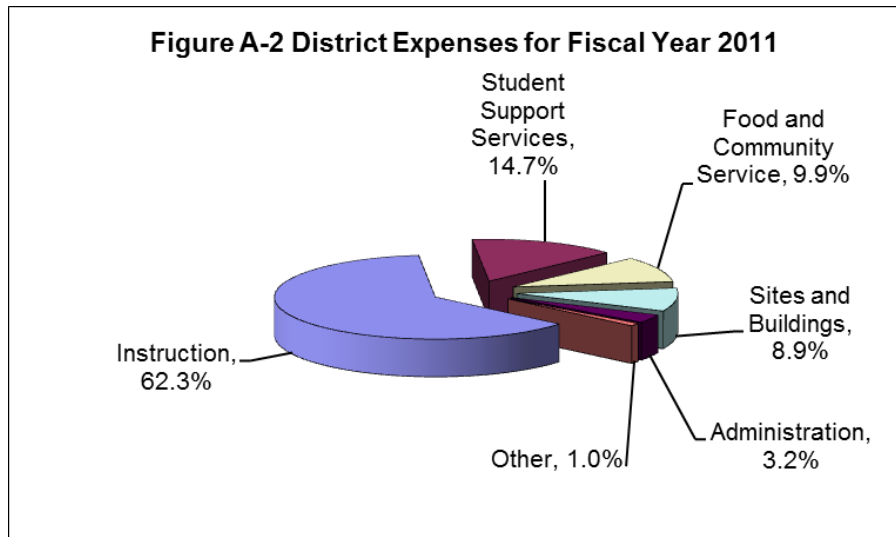
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets. The District's total revenues were \$50,698,845 for the year ended June 30, 2011. This is a 2.60% increase from the prior year's revenues. The District had one-time proceeds from the sale of land and a building, as well as, the settlement of a lawsuit related to the construction of the high school.

Unrestricted State aid along with local property taxes accounted for 60.0% of the total revenue for the year (see Figure A-1 below). Another 39.7% came from restricted state, federal and local program revenues and the remaining 0.7% from earnings on investments and other. Total revenues surpassed expenses, increasing net assets \$3,618,207 from last year. The District has been mindful of its spending due to the potential for future budget reductions.



The District's total expenditures for programs and services were \$47,313,575 for the year ended June 30, 2011. This is a 3.63% increase from the prior year's expenses. The District's expenses are predominantly related to student education (77.0%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.2% of total costs.



INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 \$47,313,575. 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 4.8%, or \$2,310,914 of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$17,596,987, or 37.2% of the total costs for 2010-2011.
- The remainder of the District's costs (\$27,405,674), 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 Assets**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Administration	\$ 1,524,753	\$ 1,653,919	-7.81%	\$ 1,510,103	\$ 1,648,919	-8.42%
District Support Services	1,115,708	949,578	17.50%	1,072,403	907,759	18.14%
Regular Instruction	21,090,133	20,103,140	4.91%	12,208,462	9,923,072	23.03%
Vocational Education Instruction	801,446	883,686	-9.31%	759,024	818,649	-7.28%
Special Education Instruction	7,557,654	7,752,733	-2.52%	2,319,969	2,546,266	-8.89%
Instructional Support Services	2,411,922	2,243,858	7.49%	1,869,825	1,638,483	14.12%
Pupil Support Services	3,457,085	3,538,480	-2.30%	3,359,942	3,445,307	-2.48%
Sites and Buildings	4,215,561	3,508,797	20.14%	3,600,681	2,831,646	27.16%
Fiscal and Other Fixed Costs Programs	127,098	130,321	-2.47%	127,098	130,321	-2.47%
Food Service	2,390,350	2,359,800	1.29%	(146,368)	(208,558)	-29.82%
Community Service	2,257,943	2,064,867	9.35%	360,613	141,818	154.28%
Interest and Fiscal Charges on Long-Term Liabilities	363,922	464,890	-21.72%	363,922	464,890	-21.72%
Total	\$47,313,575	\$45,654,069	3.63%	\$27,405,674	\$24,288,572	12.83%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 2010-2011 fiscal year, the District's governmental funds reported a **combined** fund balance of \$10,063,625, a 26.2% increase from last year's ending fund balance of \$7,971,233.

Revenues for the District's governmental funds totaled \$50,726,242 while total expenditures were \$48,914,014. Other financing sources and the special item totaled \$280,164. As a result, the District completed the year with an excess of revenues, other financing sources and special item over expenditures of \$2,092,392. 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**

	2011			Fund Balance Increase (Decrease)
	Revenues	Expenditures	Other Financing Sources(Uses) and Special Item	
General Fund	\$ 43,334,980	\$ 41,639,948	\$ 280,164	\$ 1,975,196
Food Service Fund	2,540,507	2,425,425		115,082
Community Service Fund	2,283,602	2,252,741		30,861
Debt Service Fund	2,567,153	2,595,900		(28,747)
Totals	<u>\$ 50,726,242</u>	<u>\$ 48,914,014</u>	<u>\$ 280,164</u>	<u>\$ 2,092,392</u>
	2010			
	Revenues	Expenditures	Other Financing Sources(Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 42,068,352	\$ 40,313,101	\$ 2,100	\$ 1,757,351
Food Service Fund	2,570,666	2,359,800		210,866
Community Service Fund	2,241,563	2,027,701		213,862
Debt Service Fund	2,504,529	2,589,700		(85,171)
Totals	<u>\$ 49,385,110</u>	<u>\$ 47,290,302</u>	<u>\$ 2,100</u>	<u>\$ 2,096,908</u>

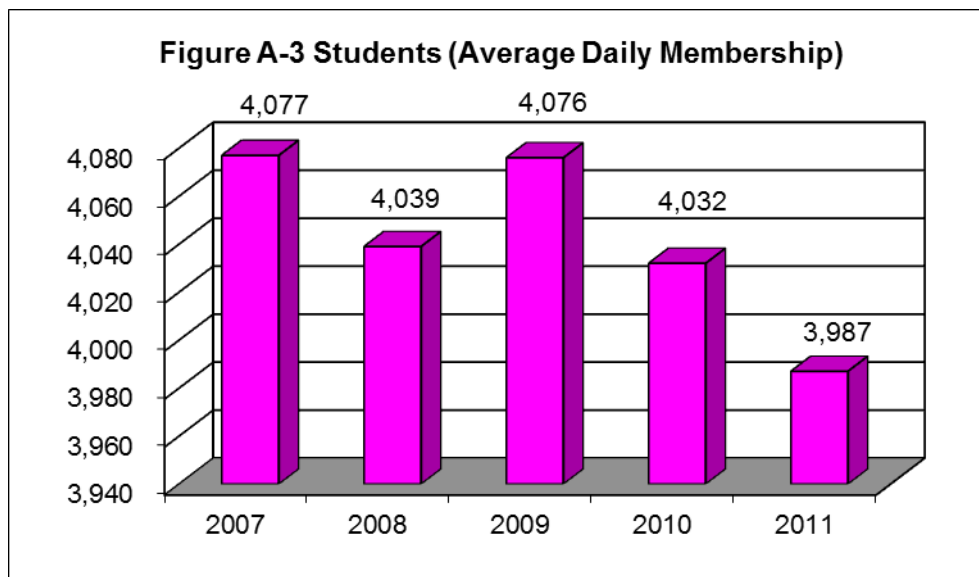
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2011

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 majority of Minnesota school districts are facing declining enrollment. Over the last five years, the District has averaged an annual 0.6% decline in the number of students. Figure A-3, below, shows that the number of students has generally decreased steadily since FY 2007 with enrollment increasing slightly in FY 2009 and declining again in the years that follow. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level.



In general, the District has been experiencing enrollment decline which has been a function of demographic trends affecting the majority of Minnesota school districts. These trends include a decline in the number of households with children, lower overall populations of children, and increased mobility. In addition, the District also 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 point to a more level enrollment trend. The grade level sizes are evening out. However, the leveling out will include slight increases or decreases to enrollment each year. Willmar has experienced some small impacts to enrollment due to the difficult economic times the country is facing. A few businesses have laid off employees and some have relocated to places where there is work.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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
	2011	2010		
Local Sources				
Property Taxes	\$ 5,588,685	\$ 3,740,446	\$ 1,848,239	49.4%
Interest Earnings	23,574	26,867	(3,293)	-12.3%
Other	1,520,443	1,141,495	378,948	33.2%
State Sources	32,619,042	32,000,209	618,833	1.9%
Federal Sources	3,583,236	5,159,335	(1,576,099)	-30.5%
Total General Fund Revenues	<u>\$ 43,334,980</u>	<u>\$ 42,068,352</u>	<u>\$ 1,266,628</u>	3.0%

Total General Fund revenue increased \$1,266,628, or 3.0%, 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.

Property taxes in 2011 were \$1,848,239, or 49.4%, more than the prior year. The increase is mainly the result of a tax shift mandated by the state legislature. The legislature required district's to recognize a portion for 2012 taxes in 2011 while decreasing state aid for the amount of the tax recognition. Interest earnings decreased \$3,293 from the prior year as a result of declining interest rates due to the nationwide economic recession. Other local sources increased \$378,948 due to the settlement of a lawsuit. The decrease to federal sources is a result of the of phase out of American Recovery and Reinvestment Act funds.

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
	2011	2010		
Salaries	\$ 23,944,081	\$ 23,671,721	\$ 272,360	1.2%
Employee Benefits	7,554,843	7,429,186	125,657	1.7%
Purchased Services	7,417,357	6,426,371	990,986	15.4%
Supplies and Materials	1,573,048	1,282,198	290,850	22.7%
Capital Expenditures	902,541	1,341,055	(438,514)	-32.7%
Other Expenditures	248,078	162,570	85,508	52.6%
Total General Fund Expenditures	<u>\$ 41,639,948</u>	<u>\$ 40,313,101</u>	<u>\$ 1,326,847</u>	3.3%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

GENERAL FUND (CONTINUED)

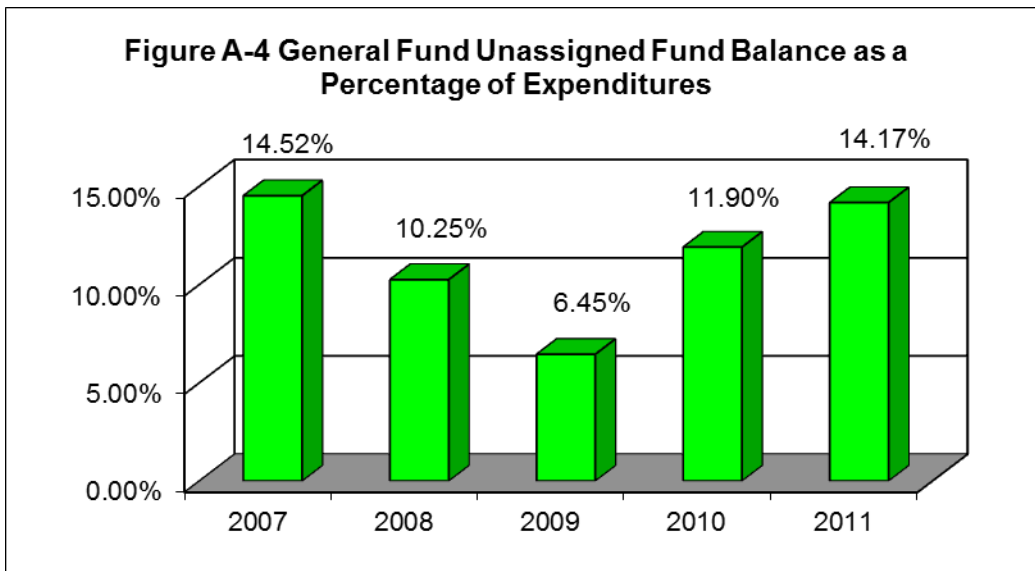
Total General Fund expenditures increased \$1,326,847 or 3.3% from the previous year.

Salaries and employee benefits increased due to the addition of jobs related to federal Education Jobs funding. Benefits also increased due to the jobs created by the federal Education Jobs funding. 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 & Materials, Capital Expenditures and Other Expenditures) increased \$928,830 or 10.1%, compared to last year. The increase is mainly due to a shift between capital expenditures and purchased services. In 2010, an additional wing was added to Roosevelt Elementary School and was categorized as a capital expenditure. In 2011, many repair and maintenance projects were completed at the buildings and those projects are categorized as purchased services. Supplies increased due to reinstatement of a portion of the curriculum buy cycle.

In summary, 2010-2011 General Fund revenues, other financing sources and special item exceeded General Fund expenditures by \$1,975,196. As a result, the total fund balance is \$8,326,208 at June 30, 2011. After deducting statutory reserves, committed constraints and nonspendable items, the unassigned fund balance increased from \$4,798,469 on June 30, 2010 to \$5,900,273 on June 30, 2011.

Figure A-4, below, depicts the General Fund unassigned fund balance as a percentage of expenditures for fiscal years 2007 - 2011:



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 \$5,900,273 on June 30, 2011 represents 14.17% of annual expenditures.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2011

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 2010.
- Changes in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues, other financing sources and special item would exceed expenditures by \$720,037, the actual results for the year show that revenues, other financing sources and special item exceeded expenditures by \$1,975,196. The main reasons for the variance were due to the settlement of the lawsuit related to the high school building and due to strategic under spending of budgeted expenditures in the areas of purchased services and supplies to help reduce the necessity for future reductions.

FOOD SERVICE FUND

The Food Service Fund revenue for 2010-2011 totaled \$2,540,507 and expenditures were \$2,425,425, resulting in a fund balance increase of \$115,082. This fund balance improvement was primarily a result of continued effective cost control in an effort to finance future kitchen remodel projects. The June 30, 2011 Food Service fund balance is \$608,790.

The Food Service Fund is anticipating the fund balance to remain steady or decline slightly as kitchen remodel projects continue in phases for 2011-2012.

COMMUNITY SERVICE FUND

In 2010-2011, total revenues for the Community Service Fund were \$2,283,602 and total expenditures were \$2,252,741 resulting in a fund balance increase of \$30,861. The Community Service fund balance as of June 30, 2011 is \$524,763. 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 \$28,747 in 2010-2011. The resulting fund balance decrease leaves the Debt Service Fund with a fund balance of \$603,864 at June 30, 2011. 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, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the District had net capital assets of \$30,068,631 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 \$1,321,363. More detailed information about capital assets can be found in Note 4 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>2011</u>	<u>2010</u>	
Capital Assets Not Being Depreciated	\$ 685,162	\$ 623,282	9.9%
Land Improvements	3,141,819	3,146,715	-0.2%
Buildings and Improvements	47,599,839	47,341,605	0.5%
Equipment	6,010,787	6,006,397	0.1%
Less: Accumulated Depreciation	<u>(27,368,976)</u>	<u>(26,694,736)</u>	2.5%
Total Net Capital Assets	<u>\$ 30,068,631</u>	<u>\$ 30,423,263</u>	-1.2%

Construction Plans

The School Board has postponed any activity related to a potential bond referendum for facility needs due to the need to address revenue stability through an operating referendum.

The School Board will continue 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.

Long-term Liabilities

At year-end, the District had \$8,145,811 in general obligation bonds outstanding including bond premium. This is a decrease of 21.3% from the previous year - as shown in Table A-8. The District continues to pay down its debt, retiring \$2,100,000 of outstanding bonds in the year ending June 30, 2011. 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 \$981,886 at June 30, 2011. The District also has \$4,757,215 in compensated absences payable and \$16,219 in pension benefits payable at June 30, 2011. 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, 2011 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 12.0% in fiscal year 2011. More

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

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

<u>Long-Term Liabilities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 9,935,000	\$	\$2,100,000	\$ 7,835,000	\$2,200,000
Bond Premium	411,810		100,999	310,811	100,999
Other Postemployment Benefits Payable	640,270	726,670	385,054	981,886	
Pension Benefits Payable	28,149	69,106	81,036	16,219	
Compensated Absences Payable	4,779,844	528,089	550,718	4,757,215	551,230
Total	<u>\$ 15,795,073</u>	<u>\$ 1,323,865</u>	<u>\$3,217,807</u>	<u>\$ 13,901,131</u>	<u>\$2,852,229</u>

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. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional needs and increased costs due to inflation. The District has made significant spending reductions to remain fiscally responsible.

The 2009 Legislative Session was completed in May 2009. The basic formula for 2009-2010 was held flat for the 2009-2010 and 2010-2011 school years. The 2011 Legislative Session resulted in a basic formula increase of \$50 per year for 2011-12 and 2012-13. There is still quite a bit of concern regarding education funding in the future. In addition, the country has gone into an economic recession. The federal government enacted the American Recovery and Reinvestment Act of 2009 (ARRA) to provide additional money to states, schools, businesses, etc. The District benefited from the ARRA money in the 2009-2010 and 2010-2011 school years. The federal government also enacted the Education Jobs act to provide additional money to schools for 2010-2011. The state is no longer delaying aid payments to meet its cash flow needs but it has increased the amount of current revenue held back from 30% to 40% which is causing many districts to borrow money to meet obligations. Due to this change, the District will be issuing Aid Anticipation Certificates in the amount of \$3,438,321 on August 25, 2011 to help meet the cash flow needs of the District during 2011-12.

The District went to the voters in November 2008 to ask for additional operating revenue. The first operating referendum question passed and revenue increased \$201.51 per pupil. The District went to the voters in November 2010 to ask the voters to revoke the soon to be expiring \$498.49 per pupil operating referendum and replace it with a new \$898.49 per pupil operating referendum. This operating referendum failed. The District will again go to voters in November 2011 to ask the voters to renew the \$498.49 operating levy that is expiring. If the operating referendum passes the money will not be available to the District until the 2012-2013 school year.

The Willmar area has felt the impact of the recession but continues to develop in some areas. Many businesses have reduced staff in order to remain viable during this economic crisis. The District feels the impact when service is slower or goods are no longer received in a timely manner. Willmar Electric Service reduced staff over the past year. Film Drop, Crown Floral, Gilday's and other businesses

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

closed their doors this year. Little Caesar's, AT&T and Late Bloomers opened businesses in Willmar during the year.

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 District, Finance, and Finance Home), 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 ASSETS

JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	Governmental Activities	
	2011	2010
ASSETS		
Cash and Investments	\$ 4,421,405	\$ 4,902,235
Receivables		
Property Taxes	3,570,581	3,554,243
Other Governments	11,200,815	10,218,824
Other	75,920	119,351
Prepaid Items	37,439	20,733
Inventories	69,431	59,583
Bond Issuance Costs, Net	35,049	47,404
Capital Assets		
Assets Not Being Depreciated	685,162	623,282
Other Capital Assets, Net of Depreciation	29,383,469	29,799,981
Total Assets	\$ 49,479,271	\$ 49,345,636
LIABILITIES AND NET ASSETS		
Liabilities		
Salaries and Wages Payable	\$ 3,492,473	\$ 3,454,009
Accounts and Contracts Payable	616,378	502,060
Due to Other Governmental Units	238,471	138,418
Accrued Interest	162,354	205,688
Unearned Revenue		
Property Taxes	4,689,758	6,489,215
Local Sources	145,181	145,855
Noncurrent Liabilities		
Due Within One Year	2,852,229	2,694,780
Due in More Than One Year	11,048,902	13,100,293
Total Liabilities	23,245,746	26,730,318
Net Assets		
Invested in Capital Assets, Net of Related Debt	21,922,820	20,076,453
Restricted for		
Operating Capital Purposes	1,032,641	153,980
State-mandated Reserves	107,003	198,563
Food Service	608,790	493,708
Community Service	524,763	493,902
Debt Service	441,510	426,923
Unrestricted	1,595,998	771,789
Total Net Assets	26,233,525	22,615,318
Total Liabilities and Net Assets	\$ 49,479,271	\$ 49,345,636

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010		
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
GOVERNMENTAL ACTIVITIES						
Administration	\$ 1,524,753	\$ 14,650	\$	\$ (1,510,103)	\$ (1,648,919)	
District Support Services	1,115,708	43,305		(1,072,403)	(907,759)	
Regular Instruction	21,090,133	517,442	8,364,229	(12,208,462)	(9,923,072)	
Vocational Education Instruction	801,446	5,250	37,172	(759,024)	(818,649)	
Special Education Instruction	7,557,654	159,857	5,077,828	(2,319,969)	(2,546,266)	
Instructional Support Services	2,411,922	5,654	536,443	(1,869,825)	(1,638,483)	
Pupil Support Services	3,457,085		97,143	(3,359,942)	(3,445,307)	
Sites and Buildings	4,215,561	33,173	20,558	561,149	(3,600,681)	(2,831,646)
Fiscal and Other Fixed Costs Programs	127,098			(127,098)	(130,321)	
Food Service	2,390,350	795,104	1,741,614	146,368	208,558	
Community Service	2,257,943	794,434	1,102,896	(360,613)	(141,818)	
Interest and Fiscal Charges on Long-term Liabilities	363,922			(363,922)	(464,890)	
Total Governmental Activities	\$ 47,313,575	\$ 2,310,914	\$ 17,035,838	\$ 561,149	(27,405,674)	(24,288,572)
GENERAL REVENUES						
Property Taxes Levied for						
General Purposes				5,574,219	3,764,583	
Community Service				539,070	289,627	
Debt Service				2,351,381	2,298,717	
State Aid not Restricted to Specific Purposes				21,954,037	21,636,016	
Interest Earnings				39,820	46,183	
Miscellaneous				332,417	12,484	
SPECIAL ITEM - Gain on Sale of Land and Building				232,937		
Total General Revenues and Special Item				<u>31,023,881</u>	<u>28,047,610</u>	
Change in Net Assets				3,618,207	3,759,038	
NET ASSETS, BEGINNING OF YEAR				<u>22,615,318</u>	<u>18,856,280</u>	
NET ASSETS, END OF YEAR				<u>\$ 26,233,525</u>	<u>\$ 22,615,318</u>	

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	General	Food Service	Community Service	Debt Service	Total Governmental Funds	
					2011	2010
ASSETS						
Cash and Investments	\$ 1,530,682	\$ 631,404	\$ 418,277	\$ 1,770,504	\$ 4,350,867	\$ 4,812,754
Receivables						
Current Property Taxes	1,978,191		199,921	1,329,181	3,507,293	3,463,508
Delinquent Property Taxes	35,425		3,427	24,436	63,288	90,735
Due from Other Minnesota School Districts	119,662	5,039			124,701	278,024
Due from Minnesota Department of Education	10,162,489	185	266,033	58,204	10,486,911	8,910,296
Due from Federal through Minnesota Department of Education	497,595	34,572	5,002		537,169	998,087
Due from Federal Government Received Directly						29,567
Due from Other Governmental Units	49,836	2,198			52,034	2,850
Other Receivables	65,301	10,619			75,920	119,351
Prepaid Items	35,541	1,217	681		37,439	20,733
Inventories	50,750	18,681			69,431	59,583
Total Assets	\$ 14,525,472	\$ 703,915	\$ 893,341	\$ 3,182,325	\$ 19,305,053	\$ 18,785,488
LIABILITIES AND FUND BALANCE						
Liabilities						
Salaries and Wages Payable	\$ 3,361,365	\$ 24,151	\$ 106,957	\$	\$ 3,492,473	\$ 3,454,009
Accounts and Contracts Payable	556,074	27,700	28,483		612,257	496,023
Due to Other Governmental Units	217,133		21,338		238,471	138,418
Deferred Revenue						
Property Taxes Levied for Subsequent Year	1,938,249		197,484	2,554,025	4,689,758	6,489,215
Delinquent Property Taxes	35,425		3,427	24,436	63,288	90,735
Local Sources	91,018	43,274	10,889		145,181	145,855
Total Liabilities	6,199,264	95,125	368,578	2,578,461	9,241,428	10,814,255
Fund Balance						
Nonspendable	86,291	19,898	681		106,870	80,316
Restricted	1,139,644	588,892	524,082	603,864	2,856,482	1,972,764
Committed	1,200,000				1,200,000	1,200,000
Unassigned	5,900,273				5,900,273	4,718,153
Total Fund Balance	8,326,208	608,790	524,763	603,864	10,063,625	7,971,233
Total Liabilities and Fund Balance	\$ 14,525,472	\$ 703,915	\$ 893,341	\$ 3,182,325	\$ 19,305,053	\$ 18,785,488

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
Total Fund Balances - Governmental Funds	\$ 10,063,625	\$ 7,971,233
Amounts reported for governmental activities in the Statement of Net Assets 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	685,162	623,282
Land Improvements, Net of Accumulated Depreciation	1,267,956	1,354,584
Buildings and Improvements, Net of Accumulated Depreciation	26,401,402	26,654,443
Equipment and Vehicles, Net of Accumulated Depreciation	1,714,111	1,790,954
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 revenue in the funds.	63,288	90,735
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(162,354)	(205,688)
Governmental funds report debt issuance costs as expenditures at the time of issuance. Issuance costs are reported as an unamortized asset in the government-wide financial statements.	35,049	47,404
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 Assets.	66,417	83,444
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 Assets. Balances at year-end are:		
Bonds Payable	(7,835,000)	(9,935,000)
Unamortized Premiums	(310,811)	(411,810)
Other Postemployment Benefits	(981,886)	(640,270)
Pension Benefits	(16,219)	(28,149)
Compensated Absences Payable	(4,757,215)	(4,779,844)
Total Net Assets - Governmental Activities	<u>\$ 26,233,525</u>	<u>\$ 22,615,318</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, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	General	Food Service	Community Service	Debt Service	Total Governmental Funds	
					2011	2010
REVENUES						
Local Sources						
Property Taxes	\$ 5,588,685	\$	\$ 540,297	\$ 2,363,135	\$ 8,492,117	\$ 6,326,095
Interest Earnings	23,574	2,794	3,448	10,004	39,820	46,183
Other	1,520,443	812,445	993,860		3,326,748	2,984,274
State Sources	32,619,042	175,246	710,113	194,014	33,698,415	33,255,049
Federal Sources	3,583,236	1,550,022	35,884		5,169,142	6,773,509
Total Revenues	43,334,980	2,540,507	2,283,602	2,567,153	50,726,242	49,385,110
EXPENDITURES						
Current						
Administration	1,487,485				1,487,485	1,557,761
District Support Services	1,100,077				1,100,077	942,076
Regular Instruction	19,558,378				19,558,378	18,880,393
Vocational Education Instruction	822,816				822,816	780,689
Special Education Instruction	7,361,512				7,361,512	7,468,689
Instructional Support Services	2,158,543				2,158,543	2,111,164
Pupil Support Services	3,546,214		24,184		3,570,398	3,567,247
Sites and Buildings	4,576,145				4,576,145	3,551,207
Fiscal and Other Fixed Costs Programs	126,236				126,236	129,459
Food Service		2,354,264			2,354,264	2,246,359
Community Service			2,208,894		2,208,894	1,973,659
Capital Outlay	902,542	71,161	19,663		993,366	1,491,899
Debt Service						
Principal				2,100,000	2,100,000	1,995,000
Interest and Fiscal Charges				495,900	495,900	594,700
Total Expenditures	41,639,948	2,425,425	2,252,741	2,595,900	48,914,014	47,290,302
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,695,032	115,082	30,861	(28,747)	1,812,228	2,094,808
OTHER FINANCING SOURCES (USES)						
Sale of Equipment	50				50	2,100
SPECIAL ITEM						
Proceeds from Sale of Land and Building	280,114				280,114	
Net Change in Fund Balances	1,975,196	115,082	30,861	(28,747)	2,092,392	2,096,908
FUND BALANCE, BEGINNING OF YEAR	6,351,012	493,708	493,902	632,611	7,971,233	5,874,325
FUND BALANCE, END OF YEAR	\$ 8,326,208	\$ 608,790	\$ 524,763	\$ 603,864	\$ 10,063,625	\$ 7,971,233

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, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 2,092,392	\$ 2,096,908
<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	1,037,044	1,276,703
Depreciation Expense	(1,321,363)	(1,324,584)
Cost of Capital Assets Disposed	(717,436)	(91,529)
Accumulated Deprecation Related to Disposed Capital Assets	647,123	68,884
<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 Assets, 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 issuance costs and 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	2,100,000	1,995,000
Change in Accrued Interest Expense	43,334	41,166
Amortization of Bond Issuance Costs	(12,355)	(12,355)
Amortization of Bond Premium	100,999	100,999
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.	(27,447)	25,897
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).	(307,057)	(410,035)
An internal service fund is used to charge the costs associated with Delta Dental insurance. The net change in net assets of the fund is reported with governmental activities.	<u>(17,027)</u>	<u>(8,016)</u>
Change in Net Assets - Governmental Activities	<u>\$ 3,618,207</u>	<u>\$ 3,759,038</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, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			Over (Under) Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 3,831,482	\$ 3,834,999	\$ 5,588,685	\$ 1,753,686	\$ 3,740,446
Interest Earnings	25,683	23,884	23,574	(310)	26,867
Other	1,064,442	1,129,836	1,520,443	390,607	1,141,495
State Sources	34,371,739	34,209,842	32,619,042	(1,590,800)	32,000,209
Federal Sources	2,710,716	3,676,068	3,583,236	(92,832)	5,159,335
Total Revenues	42,004,062	42,874,629	43,334,980	460,351	42,068,352
EXPENDITURES					
Current					
Administration	1,475,350	1,521,705	1,487,485	(34,220)	1,557,761
District Support Services	1,058,969	1,125,832	1,100,077	(25,755)	942,076
Regular Instruction	19,436,678	19,931,649	19,558,378	(373,271)	18,880,393
Vocational Education Instruction	729,812	842,786	822,816	(19,970)	780,689
Special Education Instruction	7,503,137	7,490,414	7,361,512	(128,902)	7,468,689
Instructional Support Services	2,071,785	2,127,846	2,158,543	30,697	2,111,164
Pupil Support Services	3,477,284	3,617,573	3,546,214	(71,359)	3,550,608
Sites and Buildings	4,528,509	4,759,507	4,576,145	(183,362)	3,551,207
Fiscal and Other Fixed Costs Programs	150,000	130,000	126,236	(3,764)	129,459
Capital Outlay	436,916	887,444	902,542	15,098	1,341,055
Total Expenditures	40,868,440	42,434,756	41,639,948	(794,808)	40,313,101
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,135,622	439,873	1,695,032	1,255,159	1,755,251
OTHER FINANCING SOURCES (USES)					
Sale of Equipment		50	50		2,100
SPECIAL ITEM					
Proceeds from Sale of Land and Building		280,114	280,114		
Net Change in Fund Balances	\$ 1,135,622	\$ 720,037	1,975,196	\$ 1,255,159	1,757,351
FUND BALANCE, BEGINNING OF YEAR			6,351,012		4,593,661
FUND BALANCE, END OF YEAR			\$ 8,326,208		\$ 6,351,012

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, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			Over (Under) Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Interest Earnings	\$ 1,456	\$ 1,456	\$ 2,794	\$ 1,338	\$ 2,308
Other-Primarily Meal Sales	790,656	810,455	812,445	1,990	809,821
State Sources	180,333	176,260	175,246	(1,014)	180,270
Federal Sources	1,209,370	1,516,314	1,550,022	33,708	1,578,267
Total Revenues	2,181,815	2,504,485	2,540,507	36,022	2,570,666
EXPENDITURES					
Current					
Food Service	2,114,991	2,353,410	2,354,264	854	2,246,359
Capital Outlay	246,500	134,727	71,161	(63,566)	113,441
Total Expenditures	2,361,491	2,488,137	2,425,425	(62,712)	2,359,800
Net Change in Fund Balances	\$ (179,676)	\$ 16,348	115,082	\$ 98,734	210,866
FUND BALANCE, BEGINNING OF YEAR			493,708		282,842
FUND BALANCE, END OF YEAR			\$ 608,790		\$ 493,708

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, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			Over (Under) Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 354,412	\$ 350,823	\$ 540,297	\$ 189,474	\$ 288,475
Interest Earnings	2,364	3,915	3,448	(467)	3,438
Other-Primarily Tuition and Fees	857,817	902,801	993,860	91,059	1,032,958
State Sources	867,498	906,853	710,113	(196,740)	880,785
Federal Sources	30,000	35,587	35,884	297	35,907
Total Revenues	2,112,091	2,199,979	2,283,602	83,623	2,241,563
EXPENDITURES					
Current					
Pupil Support Services	16,381	24,574	24,184	(390)	16,639
Community Service	2,098,753	2,094,453	2,208,894	114,441	1,973,659
Capital Outlay	6,600	14,919	19,663	4,744	37,403
Total Expenditures	2,121,734	2,133,946	2,252,741	118,795	2,027,701
Net Change in Fund Balances	\$ (9,643)	\$ 66,033	30,861	\$ (35,172)	213,862
FUND BALANCE, BEGINNING OF YEAR			493,902		280,040
FUND BALANCE, END OF YEAR			\$ 524,763		\$ 493,902

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2011

WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2010

	Governmental Activities- Internal Service Fund	
	2011	2010
ASSETS		
Current Assets		
Cash and Investments	\$ 70,538	\$ 89,481
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 4,121	\$ 6,037
Net Assets		
Unrestricted	66,417	83,444
Total Liabilities and Net Assets	\$ 70,538	\$ 89,481

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2011
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities- Internal Service Fund	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for Services	\$ 225,750	\$ 222,199
OPERATING EXPENSES		
Dental Insurance Claim Payments	215,380	203,653
General Administration Costs	<u>27,397</u>	<u>26,562</u>
Total Operating Expenses	<u>242,777</u>	<u>230,215</u>
Net Change in Net Assets	(17,027)	(8,016)
NET ASSETS, BEGINNING OF YEAR	<u>83,444</u>	<u>91,460</u>
NET ASSETS, END OF YEAR	<u><u>\$ 66,417</u></u>	<u><u>\$ 83,444</u></u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2011
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities- Internal Service Fund	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 225,750	\$ 222,199
Payments for Administrative Costs	(27,627)	(27,179)
Payments for Dental Fees and Insurance Claims	(217,066)	(208,403)
	<u>(18,943)</u>	<u>(13,383)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,943)	(13,383)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>89,481</u>	<u>102,864</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 70,538</u>	<u>\$ 89,481</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (17,027)	\$ (8,016)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Accounts Payable	<u>(1,916)</u>	<u>(5,367)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (18,943)</u>	<u>\$ (13,383)</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	Private- Purpose Trust Fund
ASSETS	
Cash and Investments	\$ 34,755
Interest Receivable	347
	<hr/>
Total Assets	\$ 35,102
	<hr/> <hr/>
NET ASSETS	
Held in Trust for Scholarships	\$ 35,102
	<hr/> <hr/>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2011

	Private- Purpose Trust Fund
ADDITIONS	
Interest Earnings	\$ 486
	<hr/>
DEDUCTIONS	
Scholarship Obligations	2,300
	<hr/>
Change in Net Assets	(1,814)
NET ASSETS, BEGINNING OF YEAR	36,916
	<hr/>
NET ASSETS, END OF YEAR	\$ 35,102
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INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

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

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

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 broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets 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, 2011

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, 2011

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 assets are available.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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.

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 generally not recorded.

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. ASSETS, LIABILITIES AND EQUITY

Cash and Investments:

Cash and investments consist of demand deposit accounts, non-negotiable certificates of deposit and a repurchase agreement. Investments are recorded at fair value.

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.

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. The only receivables not expected to be collected within one year are current property taxes receivable.

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 2004 to 2010 that remain uncollected at June 30, 2011. They are equally offset by a deferred revenue amount in the liabilities of the 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 Years:

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, 2011, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

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 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.

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, as well as issuance costs, 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. Bond issuance costs, if material, are reported as an asset and amortized over the term of the related debt.

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.

Accrued Employee Benefits:

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, 2011, unpaid vacation pay totaling \$176,352 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 severance pay upon termination.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (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 600 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 115 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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Accrued Employee Benefits: (Cont'd)

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 75% of an employee's accumulated severance pay days up to a maximum of 112.5 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.

Deferred Revenue:

In addition to the deferred revenues described previously, the District has reported deferred revenues for excess tax increment financing receipts in the General Fund.

Fund Balance:

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011. This standard changed fund balance classifications within the fund level statements.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. ASSETS, LIABILITIES AND EQUITY (Cont'd)

Fund Balance: (Cont'd)

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 other funds.

The District uses 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 has 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.

Net Assets:

Net assets represent the difference between assets and liabilities in the government-wide, proprietary fund, and fiduciary fund financial statements. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions by creditors, grantors, or laws or regulations of other governments.

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 financial statements.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

F. REVENUES AND EXPENDITURES (Cont'd)

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 revenue (property taxes levied for subsequent year). 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, 2011, State law is also requiring recognition of 48.6% or \$1,835,237 of the current operating referendum and all other levies other than Career Technical and Reemployment Insurance. Career Technical and Reemployment Insurance are recognized early based on statutory requirements in the amounts of \$78,320 and \$103,693, respectively.

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 deferred 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, 2011, 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 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2010, from which the partial information was derived.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER BUDGET

Budgetary control for governmental funds is established by each fund's total appropriations. Expenditures exceeded appropriations for the following fund for the year ended June 30, 2011.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Community Service Special Revenue Fund	\$ 2,252,741	\$ 2,133,946	\$ 118,795

NOTE 3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2011, are as follows:

	<u>Book Balance</u>
Governmental Activities	
Cash and Investments	
Pooled Cash in Checking Accounts	\$ 332,584
Petty Cash	469
Individual Fund Savings Account	5,346
Non-negotiable Certificates of Deposit	250,000
Repurchase Agreement	<u>3,833,006</u>
Total Cash and Investments	<u>\$ 4,421,405</u>
Fiduciary Fund	
Cash and Investments	
Pooled Cash in Checking Accounts	\$ 1,255
Non-negotiable Certificates of Deposit	<u>33,500</u>
Total Cash and Investments	<u>\$ 34,755</u>

A. DEPOSITS

Custodial Credit Risk. 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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. CASH AND INVESTMENTS (Cont'd)

A. DEPOSITS (Cont'd)

As of June 30, 2011, the District's deposits were sufficiently covered by insurance. The District does not have a policy that further limits its collateral choices.

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 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. 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.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05: 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; mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments; 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; bankers' acceptances of United States banks; commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

FNMA is the security underlying the repurchase agreement. FNMA is rated AAA by Moody's and AA+ by Standard and Poor's.

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. 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, 2011

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 623,282	\$	\$ (5,764)	\$ 617,518
Construction in Progress		67,644		67,644
Total Capital Assets, Not Being Depreciated	623,282	67,644	(5,764)	685,162
Capital Assets, Being Depreciated				
Land Improvements	3,146,715	33,009	(37,905)	3,141,819
Buildings and Improvements	47,341,605	701,546	(443,312)	47,599,839
Equipment	6,006,397	234,845	(230,455)	6,010,787
Total Capital Assets, Being Depreciated	56,494,717	969,400	(711,672)	56,752,445
Less Accumulated Depreciation for				
Land Improvements	(1,792,131)	(118,454)	36,722	(1,873,863)
Buildings and Improvements	(20,687,162)	(907,410)	396,135	(21,198,437)
Equipment	(4,215,443)	(295,499)	214,266	(4,296,676)
Total Accumulated Depreciation	(26,694,736)	(1,321,363)	647,123	(27,368,976)
Total Capital Assets Being Depreciated, Net	29,799,981	(351,963)	(64,549)	29,383,469
Governmental Activities Net Capital Assets	<u>\$ 30,423,263</u>	<u>\$ (284,319)</u>	<u>\$ (70,313)</u>	<u>\$ 30,068,631</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Administration	\$ 226
District Support Services	874
Regular Instruction	1,034,849
Vocational Education Instruction	11,362
Special Education Instruction	4,737
Instructional Support Services	15,234
Pupil Support Services	27,195
Sites and Buildings	206,432
Fiscal and Other Fixed Cost Programs	862
Community Service	19,592
Total depreciation expense - Governmental Activities	<u>\$ 1,321,363</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. LONG-TERM DEBT

A. COMPONENTS OF LONG-TERM DEBT

The District has issued general obligation school building bonds to finance the construction of capital facilities or 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.

	Original Amount Issued	Final Maturity Date	Interest Rate	Balance Outstanding
<u>Governmental Activities</u>				
General Obligation Bonds				
Refunding Bonds, Series 2005A	\$ 16,265,000	02/01/15	5.00%	\$ 7,625,000
Capital Facilities, Series 2007A	495,000	02/01/13	4.00%	210,000
Total General Obligation Bonds				7,835,000
Bond Premium - Net				310,811
Other Postemployment Benefits Payable				981,886
Pension Benefits Payable				16,219
Compensated Absences Payable				4,757,215
Total Governmental Activities				<u>\$ 13,901,131</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:

Year Ending June 30,	<u>General Obligation Bonds</u>	
	Principal	Interest
2012	\$ 2,200,000	\$ 389,650
2013	2,315,000	280,700
2014	2,320,000	166,000
2015	1,000,000	50,000
	<u>\$ 7,835,000</u>	<u>\$ 886,350</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. LONG-TERM DEBT (Cont'd)

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.

On June 15, 2007, the District issued \$495,000 of General Obligation Capital Facilities Bonds, Series 2007A. The proceeds of this issue were used to finance various school roofing and parking lot improvements. Capital facilities revenues under Minnesota Statute Section 124.2455, are dedicated to the retirement of these bonds. In the event the capital facilities revenues are not sufficient, the District will levy property taxes for the deficiency.

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.

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, 2011 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. LONG-TERM DEBT (Cont'd)

D. CHANGES IN LONG-TERM DEBT

The following table summarizes changes in long-term debt during the year ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds Payable	\$ 9,935,000	\$	\$ (2,100,000)	\$ 7,835,000	\$ 2,200,000
Bond Premium	411,810		(100,999)	310,811	100,999
Other Postemployment Benefits Payable	640,270	726,670	(385,054)	981,886	
Pension Benefits Payable	28,149	69,106	(81,036)	16,219	
Compensated Absences Payable	4,779,844	528,089	(550,718)	4,757,215	551,230
Total Governmental Activities	<u>\$ 15,795,073</u>	<u>\$ 1,323,865</u>	<u>\$ (3,217,807)</u>	<u>\$ 13,901,131</u>	<u>\$ 2,852,229</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, 2011) and is unsecured. This line matures on December 31, 2011. There is no balance outstanding under this arrangement as of June 30, 2011.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6. FUND BALANCE

Portions of the District's fund balance are nonspendable, restricted due to legal restrictions, committed by Board action, or unassigned. The following is a summary of fund balance components at June 30, 2011.

	General	Food Service	Community Service	Debt Service	Total
Nonspendable					
Prepaid Items	\$ 35,541	\$ 1,217	\$ 681	\$	\$ 37,439
Inventories	50,750	18,681			69,431
Total Nonspendable	86,291	19,898	681	0	106,870
Restricted					
Staff Development	72,998				72,998
Operating Capital	1,032,641				1,032,641
Community Education			286,487		286,487
E.C.F.E.			41,122		41,122
Gifted and Talented	33,501				33,501
School Readiness			45,699		45,699
Adult Basic Education			96,658		96,658
Safe Schools	504				504
Other Fund Activities		588,892	54,116	603,864	1,246,872
Total Restricted	1,139,644	588,892	524,082	603,864	2,856,482
Committed					
Severance	1,200,000				1,200,000
Unassigned					
	5,900,273				5,900,273
	<u>\$ 8,326,208</u>	<u>\$ 608,790</u>	<u>\$ 524,763</u>	<u>\$ 603,864</u>	<u>\$ 10,063,625</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 STAFF DEVELOPMENT

In accordance with state statute, the District was not required but chose to restrict 0.75% 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.

B. 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, 2011

NOTE 6. FUND BALANCE (Cont'd)

C. 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.

D. RESTRICTED FOR BASIC SKILLS PROGRAMS

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

E. RESTRICTED FOR COMMUNITY EDUCATION

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

F. RESTRICTED FOR E.C.F.E. (EARLY CHILDHOOD AND FAMILY EDUCATION)

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

G. 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.

H. RESTRICTED FOR AREA LEARNING CENTERS

The fund balance restriction represents up to 90% of the accumulated resources available to provide alternative programming in accordance with funding made available for that purpose.

I. 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.

J. RESTRICTED FOR SAFE SCHOOLS

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7. 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.

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). 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 prior 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 prior 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 factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

-or-

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. 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 to 5.5 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 which 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
651.296.6449
800.657.3853

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 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5 percent for Coordinated members and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2010 was approximately \$3.79 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2009 and June 30, 2008 were \$3.76 billion and \$3.65 billion, respectively.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

The District contributions for the years ending June 30, 2011, 2010, and 2009 were \$1,052,827, \$1,027,781, and \$1,066,607, 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 will rise 0.5% each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5%.

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 three 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, 2011

NOTE 7. 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 GERS. 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010, and 2009, were \$426,034, \$406,472, and \$410,012, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 8. OTHER POSTEMPLOYMENT BENEFIT PLAN

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions*. This implementation allows the District to report its liability for other postemployment benefits consistent with established generally accepted accounting principles 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 retiree 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 631 active participants and 84 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, 2011

NOTE 8. 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 2011, the District contributed \$385,054 to the Plan.

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

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

Annual Required Contribution	\$ 738,086
Interest on Net OPEB Obligation	25,611
Adjustment to Annual Required Contribution	<u>(37,027)</u>
Annual OPEB Cost (Expense)	726,670
Contributions Made	<u>(385,054)</u>
Increase in Net OPEB Obligation	341,616
Net OPEB Obligation - Beginning of Year	640,270
Net OPEB Obligation - End of Year	<u><u>\$ 981,886</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 2011 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
6/30/2011	\$ 726,670	\$ 385,054	53%	\$ 981,886
6/30/2010	695,999	339,551	49%	640,270
6/30/2009	506,567	222,745	44%	283,822

D. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$6,228,886 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,228,886. The covered payroll (annual payroll of active employees covered by the Plan) was \$22,444,970 and the ratio of the UAAL to the covered payroll of 27.8%.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8. 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, 2009 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 9.5% reduced by decrements to an ultimate rate of 5% after nine years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

NOTE 9. 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, 2009.

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, 2011

NOTE 9. 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	\$ 69,608
Interest on Net Pension Obligation	1,126
Adjustment to Annual Required Contribution	<u>(1,628)</u>
Annual Pension Cost (Expense)	69,106
Contributions Made	<u>(81,036)</u>
Decrease in Net Pension Obligation	(11,930)
Net Pension Obligation - Beginning of Year	<u>28,149</u>
Net Pension Obligation - End of Year	<u><u>\$ 16,219</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 2011 and the preceding year was:

Fiscal Year Ended	Annual Pension Cost	Annual Plan Sponsor Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2011	\$ 69,106	\$ 81,036	117%	\$ 16,219
6/30/2010	67,980	39,831	59%	28,149

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. SUPPLEMENTAL PENSION PLAN (Cont'd)

D. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$606,725, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$606,725. The annual covered payroll for active employees covered by the Plan in the actuarial valuation was \$22,444,970 for a ratio of UAAL to covered payroll of 2.7%.

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, 2009 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 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, 2011 was 30 years.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 10. 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 \$242,777 for the year ended June 30, 2011 which includes administrative costs of \$27,397.

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

	FY 2011	FY 2010
Unpaid Claims, Beginning of Year	\$ 6,037	\$ 11,404
Incurred Claims	215,380	203,653
Claims Payments (cash basis)	<u>(217,296)</u>	<u>(209,020)</u>
Unpaid Claims, End of Year	<u>\$ 4,121</u>	<u>\$ 6,037</u>

NOTE 11. 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 January 2014. Vehicles are leased under varying terms with leases running through March 2013.

Total rent expenditures includes the following:

Maintenance equipment	\$ 6,825
Facilities	41,256
Office equipment	102,975
Vehicles	12,327
Miscellaneous rental	<u>36,280</u>
Total	<u>\$ 199,663</u>

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

<u>Year Ending June 30,</u>	
2012	\$ 115,876
2013	69,682
2014	<u>30,273</u>
Total	<u>\$ 215,831</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12. 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.

NOTE 13. 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 South Central - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as 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 14. 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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 15. RECLASSIFICATIONS

Certain prior year financial statement amounts have been reclassified to conform to current year's presentation. This includes restated prior year fund balance classifications within each fund to conform with the requirements of GASB 54. There was no affect on Net Assets or Fund Balance.

NOTE 16. SPECIAL ITEM

During the year ended June 30, 2011, the District sold the land and building formerly operated as Washington School. The proceeds are recognized as a Special Item on the Statement of Revenues, Expenditures and Changes in Fund Balances and as a Special Item on the Statement of Activities.

NOTE 17. OTHER EVENT

Proceeds from the settlement of a lawsuit were received during the year ended June 30, 2011. This event is infrequent and is not reported as a Special or Extraordinary Item since the decision was not within the control of management.

NOTE 18. SUBSEQUENT EVENT

On August 25, 2011, the District issued \$3,438,321 G.O. Aid Anticipation Certificates of Indebtedness, Series 2011B with an interest rate of 2.0%.

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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, 2011

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>						
7/1/2009	\$	\$ 606,725	\$ 606,725	0.0%	\$ 22,444,970	2.7%
<u>Other Postemployment Benefits</u>						
7/1/2009	\$	\$ 6,228,886	\$ 6,228,886	0.0%	\$ 22,444,970	27.8%
7/1/2008		4,382,890	4,382,890	0.0%	23,498,643	18.7%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net Obligation
<u>Pension</u>				
2011	\$ 69,608	\$ 81,036	116.4%	\$ 16,219
2010	67,980	39,831	58.6%	28,149
<u>Other Postemployment Benefits</u>				
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, 2011
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			Over (Under) Final Budget	2010
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 2,342,276	\$ 2,342,046	\$ 2,363,135	\$ 21,089	\$ 2,297,174
Interest Earnings	12,836	10,615	10,004	(611)	13,570
State Sources	193,785	194,014	194,014		193,785
Total Revenues	2,548,897	2,546,675	2,567,153	20,478	2,504,529
EXPENDITURES					
Debt Service					
Bond Principal	2,100,000	2,100,000	2,100,000		1,995,000
Bond Interest	493,650	493,650	493,650		592,450
Paying Agent Fees and Other	2,400	2,250	2,250		2,250
Total Expenditures	2,596,050	2,595,900	2,595,900	0	2,589,700
Net Change in Fund Balances	\$ (47,153)	\$ (49,225)	(28,747)	\$ 20,478	(85,171)
FUND BALANCE, BEGINNING OF YEAR			632,611		717,782
FUND BALANCE, END OF YEAR			\$ 603,864		\$ 632,611

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REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2011

	Audited	UFARS	Difference		Audited	UFARS	Difference
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 43,334,980	\$ 43,334,980	\$	Total Revenue	\$	\$	\$
Total Expenditures	41,639,948	41,639,948		Total Expenditures			
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	86,291	86,291		460 Nonspendable			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	72,998	72,998		407 Capital Projects Levy			
405 Deferred Maintenance				409 Alternative Facilities Program			
406 Health and Safety	(42,301)	(42,301)		413 Project Funded by COP/LP			
407 Capital Projects Levy				<i>Restricted:</i>			
408 Cooperative Programs				464 Restricted			
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned			
417 Taconite Building Maintenance				07 DEBT SERVICE			
423 Certain Teacher Programs				Total Revenue	2,567,153	2,567,154	(1)
424 Operating Capital	1,032,641	1,032,641		Total Expenditures	2,595,900	2,595,900	
426 \$25 Taconite				<i>Restricted/Reserved:</i>			
427 Disabled Accessibility				425 Bond Refundings			
428 Learning & Development				451 QZAB and QSCB Payments			
434 Area Learning Center				<i>Restricted:</i>			
435 Contracted Alt. Programs				464 Restricted	603,864	603,864	
436 State Approved Alt. Programs				<i>Unassigned:</i>			
438 Gifted & Talented	33,501	33,501		463 Unassigned			
441 Basic Skills Programs				08 TRUST			
445 Career & Technical Programs				Total Revenue	486	486	
449 Safe Schools - Crime Levy	504	504		Total Expenditures	2,300	2,300	
450 Transition for Pre-Kindergarten				<i>Unassigned:</i>			
451 QZAB and QSCB Payments				422 Unassigned	35,102	35,103	(1)
452 OPEB Liab Not Held in a Trust				09 AGENCY			
453 Unfunded Sev & Retirement Levy				<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned			
464 Restricted				20 INTERNAL SERVICE			
<i>Committed:</i>				Total Revenue	225,750	225,750	
418 Separation/Retirement Benefits	1,200,000	1,200,000		Total Expenditures	242,777	242,777	
461 Committed				<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned	66,417	66,418	(1)
462 Assigned				25 OPEB REVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue			
422 Unassigned	5,942,574	5,942,575	(1)	Total Expenditures			
02 FOOD SERVICE				<i>Unassigned:</i>			
Total Revenue	2,540,507	2,540,506	1	422 Unassigned			
Total Expenditures	2,425,425	2,425,425		45 OPEB IRREVOCABLE TRUST			
<i>Nonspendable:</i>				Total Revenue			
460 Nonspendable	19,898	19,898		Total Expenditures			
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
452 OPEB Liab Not Held in a Trust				422 Unassigned			
<i>Restricted:</i>				47 OPEB DEBT SERVICE			
464 Restricted	588,892	588,892		Total Revenue			
<i>Unassigned:</i>				Total Expenditures			
463 Unassigned				<i>Restricted:</i>			
04 COMMUNITY SERVICE				464 Restricted			
Total Revenue	2,283,602	2,283,602		<i>Unassigned:</i>			
Total Expenditures	2,252,741	2,252,742	(1)	463 Unassigned			
<i>Nonspendable:</i>				47 OPEB DEBT SERVICE			
460 Nonspendable	681	681		Total Revenue			
<i>Restricted/Reserved:</i>				Total Expenditures			
426 \$25 Taconite				<i>Restricted:</i>			
431 Community Education	286,487	286,487		464 Restricted			
432 E.C.F.E	41,122	41,122		<i>Unassigned:</i>			
444 School Readiness	45,699	45,699		463 Unassigned			
447 Adult Basic Education	96,658	96,658		47 OPEB DEBT SERVICE			
452 OPEB Liab Not Held in a Trust				Total Revenue			
<i>Restricted:</i>				Total Expenditures			
464 Restricted	54,116	54,115	1	<i>Restricted:</i>			
<i>Unassigned:</i>				464 Restricted			
463 Unassigned				<i>Unassigned:</i>			
				463 Unassigned			

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

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	\$ 146,957
Free and Reduced Lunch	10.555	1-347-000	710,188
After School Snack	10.555	1-347-000	13,379
Commodities Rebates	10.555	1-347-000	10,139
Food Distribution (Commodities-noncash)	10.555	1-347-000	120,548
Special Milk Program for Children	10.556	1-347-000	314
School Breakfast Program	10.553	1-347-000	417,121
Fresh Fruit and Vegetable Program	10.582	1-347-000	131,376
Total U.S. Department of Agriculture			<u>1,550,022</u>
U.S. Department of Education			
Minnesota Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	N/A	1,046,615
ARRA Title I, Grants to Local Educational Agencies	84.389	N/A	312,154
Adult Education - Basic Grants to States	84.002	N/A	31,035
Title I, Part C - Migrant Education_State Grant Program	84.011	N/A	47,820
Title IV, Part A - Safe and Drug-Free Schools	84.186	N/A	7,813
Title II, Part A - Improving Teacher Quality State Grants	84.367	N/A	275,540
Title III, Part A - English Language Acquisition Grants	84.365	N/A	85,487
Education Jobs Fund	84.410	N/A	725,730
SW/WC Service Cooperative			
Special Education Cluster:			
Special Education_Grants to States:			
Federal Flow Through, P.L. 108-446	84.027	N/A	593,970
Special Education_Preschool Grants	84.173	N/A	27,038
ARRA Special Education_Grants to States	84.391	N/A	428,369
ARRA Preschool Incentive Grants	84.392	N/A	4,380
Litchfield ISD #465			
Career and Technical Education - Basic Grants to States	84.048A	N/A	29,231
Total U.S. Department of Education			<u>3,615,182</u>
Total Federal Awards			<u>\$ 5,165,204</u>

Supplementary Information - See Accompanying Notes to Schedule of Expenditures of Federal Awards and Auditor's Report

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

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, 2011. The information in this Schedule is presented in accordance with the requirements of 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, 2011, 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 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, 2011, and have issued our report thereon dated November 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Independent School District #347, Willmar, Minnesota, complied with the material terms and conditions of applicable legal provisions except as described as Finding 2011-01 in the Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of Independent School District #347 and state agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

Conway, Deuth & Schmiesing, PLLP

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

November 14, 2011

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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 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

We noted certain matters that we reported to the management of Independent School District #347 in a separate letter dated November 14, 2011.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

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

November 14, 2011



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Independent School District #347, Willmar, Minnesota, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. 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 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Independent School District #347 complied, in all material respects, with the 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, 2011.

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Internal Control Over Compliance

Management of Independent School District #347 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, state and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

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

November 14, 2011

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the basic financial statements of Independent School District #347, Willmar, Minnesota.
2. No significant deficiencies in internal control over financial reporting were disclosed by the audit of financial statements of Independent School District #347 as reported in the "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*."
3. No instances of noncompliance material to the financial statements of Independent School District #347, Willmar, Minnesota, were disclosed during the audit.
4. No significant deficiencies in internal control over compliance were disclosed by the audit of the major federal award programs in the "Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award programs for Independent School District #347, Willmar, Minnesota, expresses an unqualified opinion.
6. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The following programs were tested as major programs:

<u>Program Name</u>	<u>CFDA No.</u>
Title I, Part A Cluster	84.010 and 84.389
Special Education Cluster	84.027, 84.173, 84.391 and 84.392
Education Jobs Fund	84.410

8. The threshold for distinguishing between Types A and B programs was \$300,000.
9. Independent School District #347, Willmar, Minnesota, qualified as a low-risk auditee.

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

None

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

IV. FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

FINDING 2011-01 CONTRACT WITH BOARD MEMBER

Condition: The District currently contracts with a Board member to provide certain services. Minnesota Statutes require certain actions be taken when entering into such contracts.

Criteria: Minnesota Statute §471.89, subd. 2. requires the Board to adopt a resolution setting forth the essential facts and determining the contract price was as low or lower than the price at which the commodity or service could be obtained elsewhere. Furthermore, prior to payment of the contract, the interested officer is required to file with the clerk of the governing body an affidavit stating six specific points.

Questioned Costs: None

Context: The interested officer entered into the original contract prior to becoming a Board member. Once elected, the above requirements should have been followed.

Effect: Noncompliance with the requirements of Minnesota Statutes.

Cause: Upon inquiry of the District's attorney, the District followed Minn. Stat. §123B.195 with no such direction to follow Minn. Stat. §471.89, subd. 2.

Recommendation: We recommend the District follow the above requirements when contracting with Board members.

CORRECTIVE ACTION PLAN (CAP)

Explanation of Disagreement with Audit Findings:
None

Actions Planned in Response to Finding:

The District has directed the Board member to complete the affidavit for all future claims related to this contract. The District will follow Minn. Stat. §471.89, subd. 2 if it renews this contract with the Board member by adopting a resolution for renewal.

Officials Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance

Planned Completion Date of CAP:

11/7/2011

Plan to Monitor Completion of CAP:

Review of claims for affidavit will be made and future contracts with the Board member will be adopted by resolution.

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

We have audited the Statements of Cash Receipts and Disbursements of the Student Activity Funds of Independent School District #347 for the year ended June 30, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 1 to the Student Activity Funds Financial Statements, the financial statements are prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been subjected to satisfactory audit tests, the financial statements referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Funds as of June 30, 2011, and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in Note 1 to the Student Activity Funds Financial Statements.

Conway, Deuth & Schmiesing, PLLP

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

November 14, 2011

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INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ELEMENTARY ACTIVITY FUND
YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Transfers</u> <u>and Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2011</u>
Elementary Yearbook	<u>\$ 1,326</u>	<u>\$ 12,200</u>	<u>\$ 8,018</u>	<u>\$ 5,508</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
MIDDLE SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2011

	Balance July 1, 2010	Transfers and Receipts	Disbursements	Balance June 30, 2011
Musical	\$ 41	\$ 768	\$ 809	\$
Pop Concert T-Shirts	124	1,882	1,940	66
Yearbook		13,061	13,061	
Student Council	1,463	2,556	3,394	625
	<u>1,628</u>	<u>18,267</u>	<u>19,204</u>	<u>691</u>
Total	<u>\$ 1,628</u>	<u>\$ 18,267</u>	<u>\$ 19,204</u>	<u>\$ 691</u>

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, 2011

	Balance July 1, 2010	Transfers and Receipts	Disbursements	Balance June 30, 2011
Class of 2010	\$ 3,584	\$	\$ 3,584	\$
Cardettes	1,605	1,470	1,265	1,810
F.F.A.	222			222
General Account (Bank Interest/Expenses)	1	3,412	3,126	287
Cross Country	784	6,049	5,064	1,769
Key Club	1,994	110	426	1,678
National Honor Society	646	903	1,312	237
Nordic Ski	43	3,896	3,819	120
Seventh Rendition	26,601	276,899	295,276	8,224
Spanish Club	105		78	27
Student Council		10,803	10,659	144
Usher's Fund	74	407	337	144
"W" Fund	3,993		2,461	1,532
Wihisean	5,167	21,546	26,563	150
Orchestra	6,695	1,305	2,636	5,364
Willmar Athletics	6,886	44,463	41,606	9,743
Final Concessions	8,168	18,530	19,914	6,784
Knowledge Bowl	69			69
High Mileage	285	950	743	492
Gymnastics	3,702	3,409	2,778	4,333
Speech	245	672	791	126
BPA	70			70
Fastpitch Softball	763	5,999	3,833	2,929
Tennis	2,469	3,317	3,216	2,570
Volleyball	1,871	9,271	7,661	3,481
Track		10,875	4,629	6,246
Girls Soccer	870	6,545	5,791	1,624
Boys Soccer	1,551	3,228	3,957	822
Boys Swim	457	1,600	1,095	962
Girls Swim	2,640	4,914	4,672	2,882
Wrestling	2,756	5,095	7,484	367
Boys Basketball	236	2,140	1,447	929
Girls Basketball	764	1,440	1,270	934
Boys Hockey	1,173	1,758	1,975	956
Girls Hockey	1,154	3,340	2,790	1,704
Boys Baseball	1,461	5,309	3,586	3,184
Boys Golf	949	1,869	1,040	1,778
Girls Golf	469	760	794	435
Boys Tennis	1,578	1,005	1,963	620
Football	614	19,800	16,226	4,188
	<u>614</u>	<u>19,800</u>	<u>16,226</u>	<u>4,188</u>
Total	<u>\$ 92,714</u>	<u>\$ 483,089</u>	<u>\$ 495,867</u>	<u>\$ 79,936</u>

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
ALC - SERVICE LEARNING ACTIVITY FUND
YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Transfers</u> <u>and Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2011</u>
Service Learning	<u>\$ 1,464</u>	<u>\$ 319</u>	<u>\$ 343</u>	<u>\$ 1,440</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2011

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 cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

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, 2011, 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 the Statements of Cash Receipts and Disbursements of the Student Activity Fund of Independent School District #347 as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. In our report, our opinion was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Further, the financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Manual for Activity Fund Accounting* provides uniform financial accounting and reporting standards for student activities. Compliance with student activity laws and regulations is the responsibility of the District's student activity account management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the District complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Student Activity Findings as Finding 2011-02.

This report is intended for the information of the Board of Education, management, and students of Independent School District #347 and the Minnesota Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota
November 14, 2011

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITIES FINDINGS
YEAR ENDED JUNE 30, 2011

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE

ITEM ARISING THIS YEAR

FINDING 2011-02 *MANUAL FOR ACTIVITY FUND ACCOUNTING FOR MINNESOTA SCHOOL DISTRICTS*
(MAFA) NONCOMPLIANCE

Condition: The District currently operates an Alternative Learning Center Student Activity Account that is not compliant with the requirements of MAFA.

Criteria: The MAFA requires that Student Activity Funds be used to account for dollars raised by the students for the students. It further requires student participation through student signatures on purchase orders, requisitions, and check requests.

Questioned Costs: None

Context: The District informed us that student involvement in this account is difficult since there are no full time students at the Alternative Learning Center.

Effect: Noncompliance with the requirements of the MAFA.

Cause: The District does not have a policy in place to ensure student involvement within the activity accounts of the Student Activity Fund.

Recommendation: We recommend the District review this activity account and determine the proper treatment. If indeed this is an account raised by the students for the students, proper student involvement must be mandated. If simply a convenience account, the account should be closed and operated through the General Fund.

CORRECTIVE ACTION PLAN (CAP)

Explanation of Disagreement with Audit Findings:
None

Actions Planned in Response to Finding:

The account relates to a school store. As of 11/7/2011, it will be operated through the General Fund and the ALC Student Activity Fund account is closed.

Officials Responsible for Ensuring CAP:

Pam Harrington, Director of Business and Finance

Planned Completion Date of CAP:

11/7/2011

Plan to Monitor Completion of CAP:

Completed as of 11/7/2011