

**INDEPENDENT SCHOOL DISTRICT NO. 277
Minnetrista, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 277

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INDEPENDENT SCHOOL DISTRICT NO. 277

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INDEPENDENT SCHOOL DISTRICT NO. 277
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2014

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
David Botts	Chairperson	January 1, 2016
Ann Bremer	Vice Chairperson	January 1, 2016
Ralph Harrison	Treasurer	January 1, 2016
David Bond	Director	January 1, 2016
Loren Davis	Director	January 1, 2018
Gina Smith	Director	January 1, 2018
Gary Wollner	Director	January 1, 2018
<u>Administration</u>		
Kevin Borg	Superintendent	
Mark Femrite	Assistant Superintendent for Teaching and Learning	
Megan Berberick	Director of Finance	
Joel Dahl	Director of Community Education	
Cory Wolf	Technology Coordinator	
Meredith Boo	Director of Special Services	
Keith Randklev	Principal - Mound Westonka High School	
Christy Zachow	Principal - Grandview Middle School	
Scott Eidsness	Principal - Shirley Hills Primary	
Nancy Benz	Principal - Hilltop Primary	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2014 and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions



In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 65

As discussed in Note 11 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
September 18, 2014

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are the government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- 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.
- 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 data with more detail.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets 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 position and how it has changed. Net position, 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 position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

Proprietary Funds – These funds present short and long-term financial information about the activities the District operates like a business, such as retiree severance funds.

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

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position – The District's combined net position was \$ 15,185,460 on June 30, 2014.

Table 1
Statement of Net Position
Governmental Activities

	2013	2014	Percentage Change 2013-14
ASSETS			
Current and Other Assets	\$ 46,361,314	\$ 33,466,082	-27.8%
Capital Assets	11,538,366	27,860,710	141.5%
Total Assets	<u>\$ 57,899,680</u>	<u>\$ 61,326,792</u>	5.9%
LIABILITIES			
Long-Term Liabilities	\$ 30,764,099	\$ 28,559,654	-7.2%
Other Liabilities	13,476,491	8,520,735	-36.8%
Total Liabilities	<u>\$ 44,240,590</u>	<u>\$ 37,080,389</u>	16.2%
DEFERRED INFLOW OF RESOURCES			
Deferred Inflows	<u>\$ -</u>	<u>\$ 9,060,943</u>	N/A
NET POSITION			
Net Investment in Capital Assets	\$ 7,275,288	\$ 9,122,841	25.4%
Restricted	1,306,111	1,236,350	-5.3%
Unrestricted	5,077,691	4,826,269	-5.0%
Total Net Position	<u>\$ 13,659,090</u>	<u>\$ 15,185,460</u>	11.2%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A summary of the revenue and expenses is presented in Table 2.

Table 2
Change in Net Position

	2013	2014	Percentage Change 2013-14
REVENUES			
Program Revenues:			
Charges for Services	\$ 3,613,169	\$ 3,540,720	-2.0%
Operating Grants and Contributions	4,794,430	4,630,234	-3.4%
Capital Grants and Contributions	2,149	209,316	-80.0%
General Revenues:			
Property Taxes	10,633,972	7,701,155	-27.6%
State Aid - Formula Grants	13,291,964	15,732,073	18.4%
Other	335,378	345,924	3.1%
Total Revenues	<u>32,671,062</u>	<u>32,159,422</u>	-1.6%
EXPENSES			
Administration	961,789	986,476	2.6%
District Support Services	1,040,703	1,044,250	0.3%
Elementary and Secondary Regular			
Instruction	12,782,669	12,692,429	-0.7%
Vocational Education Instruction	184,599	151,731	-17.8%
Special Education Instruction	4,171,164	4,667,419	11.9%
Community Education and Services	2,636,457	2,697,731	2.3%
Instructional Support Services	1,079,643	1,435,133	32.9%
Pupil Support Services	2,167,327	2,143,166	-1.1%
Sites, Buildings and Equipment	2,928,926	2,775,322	-5.2%
Fiscal and Other Fixed Cost Programs	84,071	85,785	2.0%
Food Service	1,232,348	1,167,171	-5.3%
Interest on Long-Term Debt	761,075	696,432	-8.5%
Total Expenses	<u>30,030,771</u>	<u>30,543,045</u>	1.7%
Change in Accounting Principle	-	(90,007)	100%
Change in Net Position	<u>2,640,291</u>	<u>1,616,377</u>	-38.8%
End of Year Net Position	<u>\$ 13,659,090</u>	<u>\$ 15,185,640</u>	11.2%

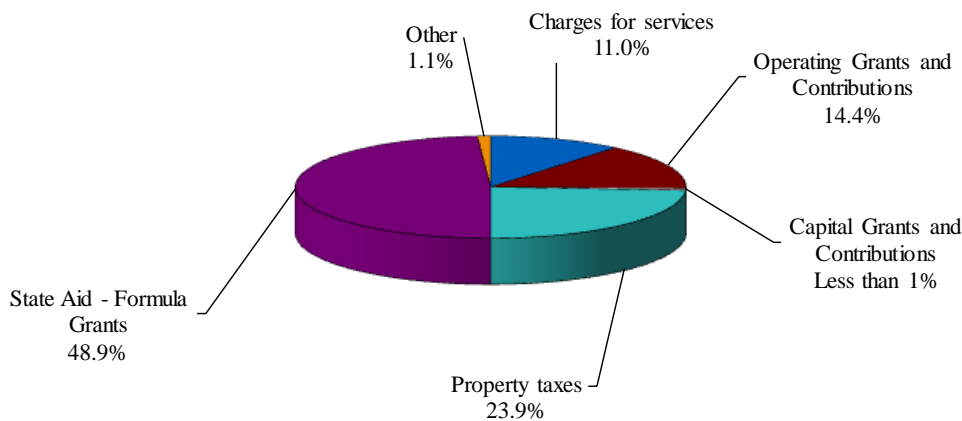
INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Position – The District's total revenues were \$ 32,159,422 for the year ended June 30, 2014. Property taxes and state formula aid accounted for 72.8% of total revenue for the year (see Figure A). Another 1.1% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total revenues surpassed expenses, increasing net position \$ 1,616,377 over last year.

Figure A
Sources of the District's Revenues for Fiscal Year 2014



The total cost of all programs and services was \$ 30,543,045. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs and instructional and pupil support) were 69.1% of expenses incurred; see Figure B. The purely administrative activities of the District accounted for just 3.2% of total costs.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure B
The District's Expenses for Fiscal Year 2014

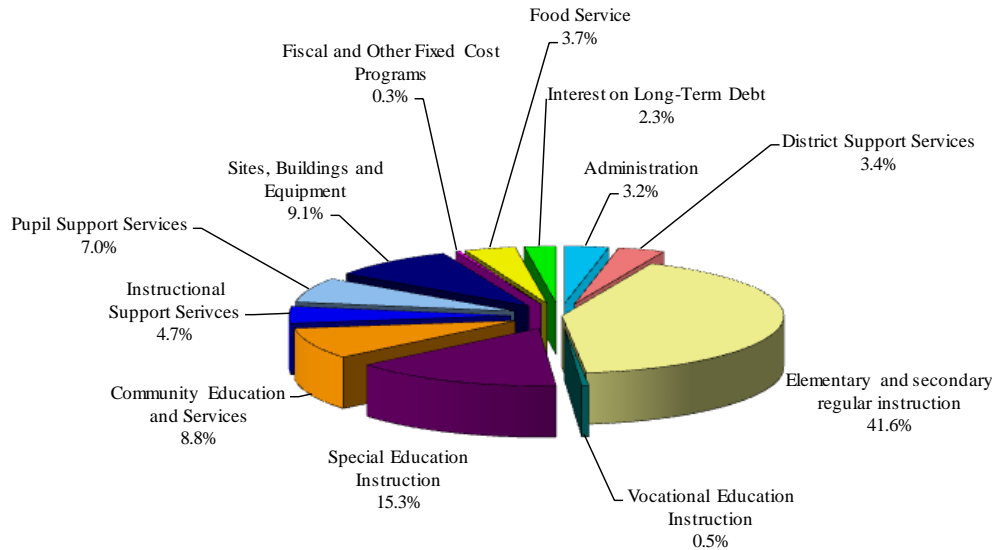


Table 3
Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2013	2014	Change 2013-14	2013	2014	Change 2013-14
Administration	\$ 961,789	\$ 986,476	2.6%	\$ 961,789	\$ 986,476	2.6%
District Support Services	1,040,703	1,044,250	0.3%	1,040,703	1,034,853	-0.6%
Elementary and Secondary Regular Instruction	12,782,669	12,692,429	-0.7%	10,500,403	10,632,979	1.3%
Vocational Education Instruction	184,599	151,731	-17.8%	175,124	142,263	-18.8%
Special Education Instruction	4,171,164	4,667,419	11.9%	1,568,360	2,143,771	36.7%
Community Education and Services	2,636,457	2,697,731	2.3%	453,343	418,003	-7.8%
Instructional Support Services	1,079,643	1,435,133	32.9%	1,049,166	1,383,199	31.8%
Pupil Support Services	2,167,327	2,143,166	-1.1%	2,103,869	2,047,060	-2.7%
Sites, Buildings and Equipment	2,928,926	2,775,322	-5.2%	2,926,777	2,553,506	-12.8%
Fiscal and Other Fixed Cost Programs	84,071	85,785	2.0%	84,071	85,785	2.0%
Food Service	1,232,348	1,167,171	-5.3%	(3,657)	38,448	-1151.4%
Interest on Long-Term Debt	761,075	696,432	-8.5%	761,075	696,432	-8.5%
Total	\$ 30,030,771	\$ 30,543,045	1.7%	\$ 21,621,023	\$ 22,162,775	2.5%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

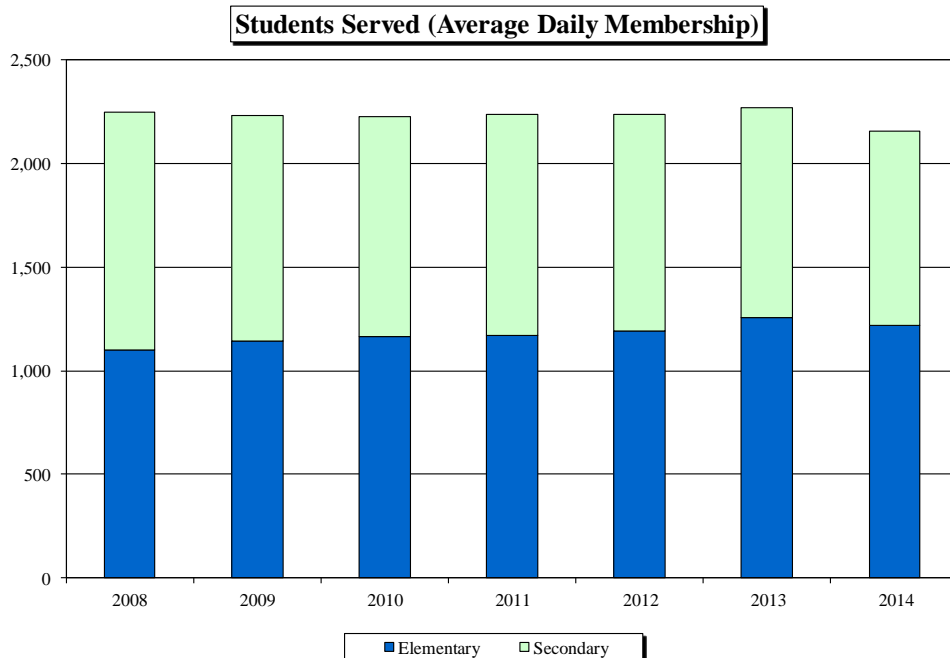
The cost of all governmental activities for 2013-14 was \$ 30,543,045.

- Some of the cost was paid by the users of the District's programs: \$ 3,540,720.
- The federal and state governments subsidized certain programs with grants and contributions: \$ 4,630,234.
- Most of the District's costs – \$ 23,433,228 – were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$ 7,701,155 in property taxes and \$ 15,732,073 of state aid based on the statewide education aid formula. In addition, \$ 345,924 of investment earnings and other general revenues was recognized.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of \$ 14,403,293, a decrease of \$ 16,747,069 from last year's ending fund balance of \$ 31,150,362. This decrease is primarily due to the use of capital facilities bonds that were sold in 2011-12.

Revenues for the District's governmental funds were \$ 32,062,411 while total expenditures were \$ 49,153,220, resulting in a \$ 17,090,809 of expenditures over revenues. The following graph shows the number of students served by the District:



INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

During 2013-14, the District's total enrollment decreased from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served less students than projected in the budget.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

	Year Ended June 30, 2013	Year Ended June 30, 2014	Percentage Change 2013-14
Local Sources:			
Property Taxes	\$ 6,795,698	\$ 4,328,357	-36.3%
Other	1,227,224	1,221,178	-0.5%
State Sources	16,443,066	18,685,031	13.6%
Federal Sources	829,015	736,419	-11.2%
Total	<u>\$ 25,295,003</u>	<u>\$ 24,970,985</u>	-1.3%

Total General Fund revenue decreased by \$ 324,018, or 1.3%, from the previous year. This is primarily due to a decrease in students versus prior year, as well as a decrease in federal aid.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve 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 on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2013	Year Ended June 30, 2014	Percentage Change 2013-14
Salaries	\$ 13,766,861	\$ 14,022,264	1.9%
Benefits	4,383,698	4,599,356	4.9%
Purchased Services	4,533,819	4,359,225	-3.9%
Supplies, Materials and Equipment	1,955,526	2,768,929	41.6%
Other Expenses	246,758	132,036	-46.5%
Total	<u>\$ 24,886,662</u>	<u>\$ 25,881,809</u>	4.0%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

GENERAL FUND

Total General Fund expenditures increased \$ 995,147, or 4.0%, from the previous year primarily due to increases in wages and benefits and general inflation of purchased services, as well as technology initiatives including a one-to-one device for students.

In 2013-14, General Fund expenditures were greater than revenues by \$ 910,824.

After deducting statutory reserves, the unassigned fund balance was \$ 3,452,883 at June 30, 2013. The unassigned fund balance is \$ 3,146,762 at June 30, 2014.

Statutory reserves/restrictions in the General Fund for deferred maintenance, health and safety and operating capital had a deficit total of \$ 642,235 at June 30, 2014, primarily due to a deficit health and safety fund balance in the amount of \$ 662,156.

General Fund Budget Highlights

Over the course of the year, the District revised the annual operating budget. Budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale and gifts.
- Increases in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$ 1,188,084 the actual results for the year show \$ 570,508.

- Actual revenues were \$ 100,817 greater than expected, less than a 1.0% variance.
- The actual expenditures were \$ 516,759 less than budgeted, about a 1.9% variance.

COMMUNITY SERVICE AND DEBT SERVICE FUNDS

The Community Service Fund experienced a current year fund balance increase of \$ 59,346 due to increased revenues over the amount of program expenditures. The Community Service fund balance was \$ 609,332 as of June 30, 2014. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund expenditures exceeded revenues by \$ 104,654 in 2013-2014. The remaining fund balance of \$ 553,119 at June 30, 2014 is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

NONMAJOR FUNDS

The Food Service Fund had negative operations of \$ 16,216 due to changes in meal regulations and changing software and upgrading computers. It has a restricted fund balance of \$ 132,068 and nonspendable fund balance of \$ 26,781 on June 30, 2014. This balance will be used to offset future operating losses and to fund equipment improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested \$ 48,307,776 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was \$ 394,530. More detailed information can be found in Note 5 of the financial statements.

Table 4
Capital Assets - Governmental Activities

	2013	2014	Total Percent Change 2013-14
Land	\$ 1,645,835	\$ 1,645,835	0.0%
Construction in Progress	3,924,024	20,510,325	100.0%
Land Improvements	2,321,252	2,321,252	0.0%
Buildings	16,020,968	16,021,667	0.0%
Furniture and Equipment	7,787,445	7,700,284	-1.1%
Vehicles	74,435	108,413	45.6%
Less Accumulated Depreciation	(20,235,593)	(20,447,066)	1.0%
Total	\$ 11,538,366	\$ 27,860,710	141.5%

Debt Administration

On March 1, 2012, the district issued \$ 29,925,000 G.O. School Building Bonds, Series 2012A as a result of voters approving a capital facilities improvement plan in November, 2011.

At June 30, 2013, the District had bonded debt obligations of \$ 30,040,000. The state limits the amount of G.O. debt the District can issue to 15% of the taxable market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit, which is currently \$ 420,679,163. The District is within its legal authority for bonded debt.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Liabilities

At year-end, the District had \$ 30,146,036 in G.O. bonds and capital leases payable outstanding, a decrease of 7.0% from last year, as shown in Table 5. The District also had \$ 44,474 in compensated absences payable at June 30, 2014. Total long-term liability decreased by 7.1%. More detailed information can be found in Note 7 of the financial statements.

Table 5
Outstanding Long-Term Liabilities

	2013	2014	Total Percent Change 2013-14
G.O. Bonds Payable	\$ 32,295,000	\$ 30,040,000	-7.0%
Capital Leases Payable	110,596	61,562	-44.3%
Compensated Absences	32,891	44,474	35.2%
Total	\$ 32,438,487	\$ 30,146,036	-7.1%

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum and building bond 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 program needs and increased costs due to inflation.

The 2013 and 2014 legislative sessions ended with many changes to future pupil weighting as well as changes in the levy for future years. The District will strive to maximize resources available through efficient and effective management of its operations.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF NET POSITION
June 30, 2014**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 26,346,719
Current Property Taxes Receivable	5,075,879
Delinquent Property Taxes Receivable	177,894
Accounts Receivable	82,904
Interest Receivable	91,223
Due from Department of Education	1,229,399
Due from Federal Government through Department of Education	298,104
Due from Other Minnesota School Districts	55,400
Inventory	61,655
Prepaid Items	46,905
Capital Assets:	
Land	1,645,835
Construction In Progress	20,510,325
Land Improvements	2,321,252
Buildings	16,021,667
Equipment	7,700,284
Vehicles	108,413
Less Accumulated Depreciation	<u>(20,447,066)</u>
Total Assets	<u><u>\$ 61,326,792</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 4,789,431
Salaries and Benefits Payable	359,654
Interest Payable	297,604
Due to Other Minnesota School Districts	205,625
Unearned Revenue	460,375
Bond Principal Payable (Net):	
Payable Within One Year	2,320,000
Payable After One Year	28,233,732
Capital Lease Payable:	
Payable Within One Year	52,467
Payable After One Year	9,095
Compensated Absences Payable:	
Payable Within One Year	35,579
Payable After One Year	8,895
Net Other Post Employment Benefits (OPEB) Payable	<u>307,932</u>
Total Liabilities	37,080,389
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	9,060,943
Net Position	
Net Investment in Capital Assets	9,122,841
Restricted	1,236,350
Unrestricted	<u>4,826,269</u>
Total Net Position	<u>15,185,460</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 61,326,792</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental Activities					
Administration	\$ 986,476	\$ -	\$ -	\$ -	\$ (986,476)
District Support Services	1,044,250	9,397	-	-	(1,034,853)
Elementary and Secondary Regular Instruction	12,692,429	665,075	1,394,375	-	(10,632,979)
Vocational Education Instruction	151,731	-	9,468	-	(142,263)
Special Education Instruction	4,667,419	-	2,523,648	-	(2,143,771)
Instructional Support Services	1,435,133	21,934	30,000	-	(1,383,199)
Pupil Support Services	2,143,166	12,189	83,917	-	(2,047,060)
Sites and Buildings	2,775,322	-	12,500	209,316	(2,553,506)
Fiscal and Other Fixed Cost Programs	85,785	-	-	-	(85,785)
Food Service	1,167,171	752,435	376,288	-	(38,448)
Community Education and Services	2,697,731	2,079,690	200,038	-	(418,003)
Interest and Fiscal Charges on Long-Term Debt	696,432	-	-	-	(696,432)
Total Governmental Activities	<u>\$ 30,543,045</u>	<u>\$ 3,540,720</u>	<u>\$ 4,630,234</u>	<u>\$ 209,316</u>	(22,162,775)
General Revenues					
Taxes:					
Property Taxes, Levied for General Purposes					4,303,471
Property Taxes, Levied for Community Service					238,918
Property Taxes, Levied for Debt Service					3,158,766
State Aid-Formula Grants					15,732,073
Other General Revenues					175,950
Investment Income					166,550
Gain of Sale of Assets					3,424
Total General Revenues					<u>23,779,152</u>
Change in Net Position					1,616,377
Net Position - Beginning, as Previously Stated					13,659,090
Change in Accounting Principle (Note 11)					(90,007)
Net Position - Beginning, as Restated					<u>13,569,083</u>
Net Position - Ending					<u>\$ 15,185,460</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 277

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	General	Debt Service	Community Service
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Investments	\$ 4,535,255	\$ 1,814,084	\$ 1,253,346
Current Property Taxes Receivable	3,300,330	1,254,356	248,744
Delinquent Property Taxes Receivable	119,310	40,627	7,956
Accounts Receivable	44,727	-	38,177
Interest Receivable	2,996	-	-
Due from Department of Education	1,222,412	50	6,926
Due from Federal Government through Department of Education	298,104	-	-
Due from Other Minnesota School Districts	53,000	-	2,400
Due from Other Funds	199,420	-	450
Inventory	34,874	-	-
Prepaid Items	46,905	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 9,857,333</u>	<u>\$ 3,109,117</u>	<u>\$ 1,557,999</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 293,325	\$ -	\$ 33,924
Salaries and Benefits Payable	303,517	-	53,422
Due to Other Minnesota School Districts	205,625	-	-
Unearned Revenue	64,585	-	354,005
Total Liabilities	<u>867,052</u>	<u>-</u>	<u>441,351</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Delinquent Property Taxes	54,668	15,184	3,461
Property Taxes Levied for Subsequent Year's Expenditures	5,464,404	2,540,814	503,855
Total Deferred Inflows of Resources	<u>5,519,072</u>	<u>2,555,998</u>	<u>507,316</u>
 Fund Balances			
Nonspendable	81,779	-	-
Restricted	19,921	553,119	609,332
Committed	351,085	-	-
Assigned	533,818	-	-
Unassigned	2,484,606	-	-
Total Fund Balances	<u>3,471,209</u>	<u>553,119</u>	<u>609,332</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,857,333</u>	<u>\$ 3,109,117</u>	<u>\$ 1,557,999</u>

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

Building Construction	Nonmajor Funds	Total Governmental Funds
\$ 13,906,873	\$ 582,599	\$ 22,092,157
-	272,449	5,075,879
-	10,001	177,894
-	-	82,904
33,723	-	36,719
-	11	1,229,399
-	-	298,104
-	-	55,400
-	-	199,870
-	26,781	61,655
-	-	46,905
<u>\$ 13,940,596</u>	<u>\$ 891,841</u>	<u>\$ 29,356,886</u>
\$ 4,449,573	\$ 12,609	\$ 4,789,431
-	2,715	359,654
-	-	205,625
-	41,785	460,375
<u>4,449,573</u>	<u>57,109</u>	<u>5,815,085</u>
-	4,252	77,565
-	551,870	9,060,943
-	556,122	9,138,508
-	26,781	108,560
9,491,023	251,829	10,925,224
-	-	351,085
-	-	533,818
-	-	2,484,606
<u>9,491,023</u>	<u>278,610</u>	<u>14,403,293</u>
<u>\$ 13,940,596</u>	<u>\$ 891,841</u>	<u>\$ 29,356,886</u>

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INDEPENDENT SCHOOL DISTRICT NO. 277

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
June 30, 2014**

Total Fund Balances - Governmental Funds \$ 14,403,293

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not current financial resources and,
therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	48,307,776
Less Accumulated Depreciation	(20,447,066)

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(30,040,000)
Capital Lease Payable	(61,562)
Compensated Absences Payable	(44,474)

Bond premiums are reported as a liability within the Statement of Net Position and
are reported as an other financing source in the year the debt is issued in
governmental funds.

(513,732)

Net OPEB liability is not recognized in governmental funds.

(307,932)

Delinquent property taxes receivable will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds.

77,565

The Post Employment Benefits Revocable Trust Internal Service Fund is used to
charge the benefits to the fund that incurs the cost. This amount represents
assets available to fund the liabilities.

4,109,196

Governmental funds do not report a liability for accrued interest on bonds
and capital leases until due and payable.

(297,604)

Total Net Position - Governmental Activities

\$ 15,185,460

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	<u>General</u>	<u>Debt Service</u>	<u>Community Service</u>
REVENUES			
Local Property Taxes	\$ 4,328,357	\$ 2,582,820	\$ 240,273
Other Local and County Revenues	1,093,938	2,828	2,141,886
Revenue from State Sources	18,685,031	500	364,906
Revenue from Federal Sources	736,419	-	-
Sales and Other Conversion of Assets	127,240	-	3,041
Total Revenues	<u>24,970,985</u>	<u>2,586,148</u>	<u>2,750,106</u>
EXPENDITURES			
Current			
Administration	976,729	-	-
District Support Services	979,479	-	-
Elementary and Secondary Regular Instruction	11,759,474	-	-
Vocational Education Instruction	151,151	-	-
Special Education Instruction	4,540,872	-	-
Instructional Support Services	1,415,385	-	-
Pupil Support Services	2,100,746	-	-
Sites and Buildings	2,320,919	-	-
Fiscal and Other Fixed Cost Programs	85,785	-	-
Food Service	-	-	-
Community Education and Services	-	-	2,656,790
Capital Outlay			
District Support Services	19,256	-	-
Elementary and Secondary Regular Instruction	603,850	-	-
Special Education Instruction	91,397	-	-
Instructional Support Services	3,070	-	-
Pupil Support Services	624	-	-
Sites and Buildings	833,072	-	-
Food Service	-	-	-
Community Education and Services	-	-	33,970
Debt Service			
Principal	-	1,820,000	-
Interest and Fiscal Charges	-	661,494	-
Total Expenditures	<u>25,881,809</u>	<u>2,481,494</u>	<u>2,690,760</u>
Excess of Revenues Over (Under) Expenditures	(910,824)	104,654	59,346
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	-	-	-
Insurance Recovery	340,316	-	-
Total Other Financing Sources	<u>340,316</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(570,508)	104,654	59,346
FUND BALANCES			
Beginning of Year	<u>4,041,717</u>	<u>448,465</u>	<u>549,986</u>
End of Year	<u>\$ 3,471,209</u>	<u>\$ 553,119</u>	<u>\$ 609,332</u>

Building Construction	Nonmajor Funds	Total Governmental Funds
\$ -	\$ 585,651	\$ 7,737,101
29,848	15,838	3,284,338
-	35,575	19,086,012
-	335,825	1,072,244
-	752,435	882,716
<u>29,848</u>	<u>1,725,324</u>	<u>32,062,411</u>
-	-	976,729
-	-	979,479
-	-	11,759,474
-	-	151,151
-	-	4,540,872
-	-	1,415,385
-	-	2,100,746
-	-	2,320,919
-	-	85,785
-	1,122,194	1,122,194
-	-	2,656,790
-	-	19,256
-	-	603,850
-	-	91,397
-	-	3,070
-	-	624
16,393,258	-	17,226,330
-	33,583	33,583
-	-	33,970
-	435,000	2,255,000
-	115,122	776,616
<u>16,393,258</u>	<u>1,705,899</u>	<u>49,153,220</u>
(16,363,410)	19,425	(17,090,809)
-	3,424	3,424
-	-	340,316
<u>-</u>	<u>3,424</u>	<u>343,740</u>
(16,363,410)	22,849	(16,747,069)
<u>25,854,433</u>	<u>255,761</u>	<u>31,150,362</u>
<u>\$ 9,491,023</u>	<u>\$ 278,610</u>	<u>\$ 14,403,293</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (16,747,069)

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

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

Capital Outlays	16,769,498
Depreciation Expense	(394,530)
Loss on Disposal	(52,624)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (11,583)

OPEB obligations are recognized as paid in the governmental funds, but the change in the unfunded OPEB obligation is recognized in the Statement of Activities. (225,000)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities. 2,304,034

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 20,890

Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond. 59,294

The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities. (70,587)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (35,946)

Change in Net Position - Governmental Activities \$ 1,616,377

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Property Taxes	\$ 6,886,895	\$ 6,668,370	\$ 4,328,357	\$ (2,340,013)
Other Local and County Revenues	717,973	753,480	1,093,938	340,458
Revenue from State Sources	16,813,977	16,565,157	18,685,031	2,119,874
Revenue from Federal Sources	725,160	817,633	736,419	(81,214)
Sales and Other Conversion of Assets	65,528	65,528	127,240	61,712
Total Revenues	<u>25,209,533</u>	<u>24,870,168</u>	<u>24,970,985</u>	<u>100,817</u>
EXPENDITURES				
Current				
Administration	950,708	995,934	976,729	(19,205)
District Support Services	956,291	1,070,586	979,479	(91,107)
Elementary and Secondary Regular Instruction	12,285,587	12,050,140	11,759,474	(290,666)
Vocational Education Instruction	200,518	185,934	151,151	(34,783)
Special Education Instruction	4,305,672	4,356,213	4,540,872	184,659
Instructional Support Services	1,386,333	1,359,096	1,415,385	56,289
Pupil Support Services	2,259,861	2,148,824	2,100,746	(48,078)
Sites and Buildings	2,488,145	2,296,723	2,320,919	24,196
Fiscal and Other Fixed Cost Programs	79,424	83,780	85,785	2,005
Capital Outlay				
District Support Services	28,897	43,425	19,256	(24,169)
Elementary and Secondary Regular Instruction	597,203	717,438	603,850	(113,588)
Vocational Education Instruction	-	1,319	-	(1,319)
Special Education Instruction	20,000	98,631	91,397	(7,234)
Instructional Support Services	3,000	86,000	3,070	(82,930)
Pupil Support Services	-	-	624	624
Sites and Buildings	409,183	904,525	833,072	(71,453)
Total Expenditures	<u>25,970,822</u>	<u>26,398,568</u>	<u>25,881,809</u>	<u>(516,759)</u>
Excess of Revenues Over (Under) Expenditures	(761,289)	(1,528,400)	(910,824)	617,576
OTHER FINANCING SOURCE				
Insurance Recovery	-	340,316	340,316	-
Net Change in Fund Balance	<u>\$ (761,289)</u>	<u>\$ (1,188,084)</u>	<u>(570,508)</u>	<u>\$ 617,576</u>
FUND BALANCE				
Beginning of Year			<u>4,041,717</u>	
End of Year			<u>\$ 3,471,209</u>	

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

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Over (Under)
	Original	Final		
REVENUES				
Local Property Taxes	\$ 467,615	\$ 467,615	\$ 240,273	\$ (227,342)
Other Local and County Revenues	1,922,634	2,039,215	2,141,886	102,671
Revenue from State Sources	188,434	182,255	364,906	182,651
Sales and Other Conversion of Assets	-	-	3,041	3,041
Total Revenues	<u>2,578,683</u>	<u>2,689,085</u>	<u>2,750,106</u>	<u>61,021</u>
EXPENDITURES				
Current				
Community Education and Services	2,550,589	2,581,838	2,656,790	74,952
Capital Outlay				
Community Education and Services	<u>20,050</u>	<u>27,050</u>	<u>33,970</u>	<u>6,920</u>
Total Expenditures	<u>2,570,639</u>	<u>2,608,888</u>	<u>2,690,760</u>	<u>81,872</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 8,044</u>	<u>\$ 80,197</u>	59,346	<u>\$ (20,851)</u>
FUND BALANCE				
Beginning of Year			<u>549,986</u>	
End of Year			<u>\$ 609,332</u>	

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2014**

	Governmental Activities - Internal Service Fund
ASSETS	
Cash and Cash Equivalents	\$ 170,430
Investments	4,084,132
Interest Receivable	54,504
	<hr/>
Total Assets	\$ 4,309,066
	<hr/> <hr/>
LIABILITIES AND NET POSITION	
Liabilities	
Due to Other Funds	\$ 199,870
Net Position	
Unrestricted	4,109,196
	<hr/>
Total Liabilities and Net Position	\$ 4,309,066
	<hr/> <hr/>

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND**

For the Year Ended June 30, 2014

	Governmental Activities - Internal Service Fund
OPERATING EXPENSES	
Employee Benefits	\$ 199,870
Professional Services	250
Total Operating Expenses	<u>200,120</u>
NONOPERATING REVENUE	
Investment Income	<u>129,533</u>
Change in Net Position	(70,587)
NET POSITION	
Beginning of Year	<u>4,179,783</u>
End of Year	<u><u>\$ 4,109,196</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended June 30, 2014

	Governmental Activities- Internal Service Fund
CASH FLOWS - OPERATING ACTIVITIES	
Cash Paid to Vendors	\$ (250)
CASH FLOWS - FINANCING ACTIVITIES	
Payment of Due to Other Funds	(252,469)
CASH FLOWS - INVESTING ACTIVITIES	
(Purchase)/Sale of Investments	(11,491)
Interest Received	136,694
Net Cash Flows - Investing Activities	<u>125,203</u>
Net Change in Cash and Cash Equivalents	(127,516)
CASH AND CASH EQUIVALENTS	
Beginning of Year	<u>297,946</u>
End of Year	<u><u>\$ 170,430</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES	
Operating Loss	\$ (200,120)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:	
Due to Other Funds	199,870
Net Cash Flows - Operating Activities	<u><u>\$ (250)</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and Investments (Including Cash Equivalents)	\$ 217,414
Interest Receivable	<u>742</u>
Total Assets	<u><u>\$ 218,156</u></u>
NET POSITION	
Held in Trust for Scholarships	<u><u>\$ 218,156</u></u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions	\$ 22,531
Interest Revenue	645
Total Additions	<u>23,176</u>
DEDUCTIONS	
Scholarships	<u>28,685</u>
Change in Net Position	(5,509)
NET POSITION	
Beginning of Year	<u>223,665</u>
End of Year	<u><u>\$ 218,156</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

B. Basic Financial Statement Information

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

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

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

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

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

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 revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. 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 the fiduciary and proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Building Construction Fund – Capital Projects – This Fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

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

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Nonmajor Funds: (Continued)

Post Employment Benefits Debt Service Fund – This Fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

Fiduciary Fund:

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

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This Fund is used to account for the accumulation of resources to fund post employment benefits.

D. Deposits and Investments

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund and the Building Construction Capital Projects Fund are not pooled with the rest of the District's deposits and investments.

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

Cash and investments at June 30, 2014 were comprised of deposits, brokered certificates of deposits, government securities, a brokered savings deposit account and brokered money market accounts.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03.

Minnesota Statutes require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s policy states the District’s investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. The District’s investment policy limits investments to those referred to in *Minnesota Statutes* 118A.04 and 118A.05. With respect to assets of an OPEB (Other Postemployment Benefits) trust, investments provided in *Minnesota Statutes* 118A.04 and 118A.05 and investments described in *Minnesota Statute* 356A.06, subdivision 7 are permitted.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. The District’s investment policy states investments should be diversified to avoid incurring unreasonable risks inherent to over investing in specific instruments, individual financial institutions or maturities.

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

E. Property Tax Receivable

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2013, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2014. The remaining portion of the levy will be recognized when measurable and available.

G. Inventory

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

H. Prepaid Items

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

I. Property Taxes

The District is located in Hennepin County.

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 2,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Capital Assets (Continued)

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings and 5 to 20 years for equipment.

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

K. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The district has two types of deferred inflows of resources, delinquent property taxes receivable which are only presented under the modified accrual basis of accounting in the fund statements and property taxes levied for subsequent years expenditures which are presented both at the fund level and the government wide level. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Unearned Revenue

Unearned revenue represents monies received prior to June, 30 2014, but earned subsequent to year end.

M. Long-Term Obligations

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

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Compensated Absences

The District compensates administration, clerical and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to five days for school service employees while ten days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

O. Severance

There is one educational office employee eligible for severance after completing 20,880 hours of continuous service. This employee will receive \$ 12,000.

Two food service employees are eligible for severance pay after completing 14,800 hours of continuous service. They shall receive 1 day pay for each day of unused sick leave, not to exceed 100 days.

P. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- Assigned Fund Balances – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District’s annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year’s expenditures and a maximum of 15% of the prior year’s expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Q. Net Position

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

R. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Capital Projects and Trust Funds.
4. Budgets for the General, Special Revenue, Debt Service and Trust Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceeded appropriations in the following Funds for the year ending June 30, 2014.

	<u>Appropriations</u>	<u>Expenditures</u>
Major Funds:		
Building Construction	\$ 15,486,621	\$ 16,393,258
Community Service	2,608,888	2,690,760
Debt Service	2,481,119	2,481,494
Non-Major Funds:		
Post-Employment Debt Service	549,673	550,122

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of June 30, 2014, the District's bank balance was not exposed to custodial credit risk because its deposit balance was fully insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2014, the District had the following deposits:

Checking and Savings Accounts	\$ 6,226,780
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INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

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

Investment	Weighted Average Maturities In Years	Fair Value
Brokered Money Markets	N/A	\$ 4,954,166
Brokered Money Markets - OPEB	N/A	285,057
Brokered Money Markets - Building Bonds	N/A	1,581,247
Negotiable Certificates of Deposit	0.30	2,229,363
Negotiable Certificates of Deposit - OPEB	3.04	1,393,528
Negotiable Certificates of Deposit - Building Bonds	0.16	6,714,464
Government Securities - OPEB	6.66	2,572,528
Term Series	0.58	<u>605,800</u>
Total		<u><u>\$ 20,336,153</u></u>

Credit Risk: The District's investments in government securities were either rated AA+ by Standard and Poor's (S&P) or Aa2 by Moody's. The remaining investment types are unrated and, therefore, not subject to credit risk.

The following is a summary of deposits and investments at June 30, 2014:

Petty Cash	\$ 1,200
Deposits (Note 3.A)	6,226,780
Investments	<u>20,336,153</u>
Total Deposits and Investments	<u><u>\$ 26,564,133</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Deposits and investments are presented in the June 30, 2014 basic financial statements as follows:

Statement of Net Position:	\$ 26,346,719
Cash and Investments	
 Statement of Fiduciary Net Position:	
Private Purpose Trust Fund - Cash and Investments	<u>217,414</u>
 Total Deposits and Investments	<u><u>\$ 26,564,133</u></u>

NOTE 4 – INTERFUND ACTIVITY

A. Due To/Due From Other Funds

As of June 30, 2014, the following amounts were due to/due from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u> <u>Internal Service Fund</u>
General Fund	\$ 199,420
Community Service	450
Total	<u><u>\$ 199,870</u></u>

The amount due to the General Fund and Community Service Fund from the Internal Service Fund is to reimburse the General Fund and Community Service Fund for OPEB expenditures initially paid from those Funds.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 5 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,645,835	\$ -	\$ -	\$ 1,645,835
Construction in Progress	3,924,024	16,586,301	-	20,510,325
Total Capital Assets not being Depreciated	<u>5,569,859</u>	<u>16,586,301</u>	<u>-</u>	<u>22,156,160</u>
Capital Assets being Depreciated:				
Land Improvements	2,321,252	-	-	2,321,252
Buildings	16,020,968	12,699	(12,000)	16,021,667
Equipment	7,787,445	136,520	(223,681)	7,700,284
Vehicles	74,435	33,978	-	108,413
Total Capital Assets being Depreciated	<u>26,204,100</u>	<u>183,197</u>	<u>(235,681)</u>	<u>26,151,616</u>
Less Accumulated Depreciation:				
Land Improvements	1,208,832	82,097	-	1,290,929
Buildings	12,519,763	157,989	(1,320)	12,676,432
Equipment	6,440,007	150,551	(181,737)	6,408,821
Vehicles	66,991	3,893	-	70,884
Total Accumulated Depreciation	<u>20,235,593</u>	<u>394,530</u>	<u>(183,057)</u>	<u>20,447,066</u>
Total Capital Assets being Depreciated, Net	<u>5,968,507</u>	<u>(211,333)</u>	<u>(52,624)</u>	<u>5,704,550</u>
Governmental Activities, Capital Assets, Net	<u>\$ 11,538,366</u>	<u>\$ 16,374,968</u>	<u>\$ (52,624)</u>	<u>\$ 27,860,710</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 5 – CAPITAL ASSETS

Depreciation expense of \$ 394,530 for the year ended June 30, 2014 was charged to the following governmental functions:

Administration	\$	634
District Support Services		14,660
Elementary and Secondary Regular Instruction		98,315
Vocational Education Instruction		59
Special Education Instruction		1,846
Instructional Support Services		9,947
Pupil Support Services		3,663
Sites and Buildings		245,598
Food Service		15,234
Community Education and Services		4,574
Total Depreciation Expense	\$	394,530

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-Term Liabilities:						
G.O. Bonds Including						
Refunding Bonds:						
2009A Taxable OPEB Bonds	04/21/09	2.25%-4.55%	\$ 4,095,000	02/01/19	\$ 2,430,000	\$ 450,000
G.O. School Building Bonds, Series 2012A	03/01/12	1.00%-3.00%	29,925,000	02/01/27	27,610,000	1,870,000
Total G.O. Bonds					30,040,000	2,320,000
Unamortized Bond Premium					513,732	-
Capital Leases					61,562	52,467
Compensated Absences Payable					44,474	35,579
Total all Long-Term Liabilities					\$ 30,659,768	\$ 2,408,046

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

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2015	\$ 2,320,000	\$ 723,037	\$ 3,043,037
2016	2,375,000	669,437	3,044,437
2017	2,435,000	613,101	3,048,101
2018	2,495,000	553,975	3,048,975
2019	2,550,000	492,207	3,042,207
2020-2024	10,780,000	1,714,144	12,494,144
2025-2027	7,085,000	417,500	7,502,500
Total	<u>\$ 30,040,000</u>	<u>\$ 5,183,401</u>	<u>\$ 35,223,401</u>

C. Capital Lease Obligations

On August 5, 2010, the District entered into a lease purchase agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled \$ 232,792. The capital lease agreement includes annual principal and interest payments of \$ 55,032.

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2015	\$ 55,032
2016	9,172
Total Minimum Lease Payments	<u>64,204</u>
Less Amount Representing Interest	<u>(2,642)</u>
Present Value of Minimum Lease Payments	<u>\$ 61,562</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM DEBT

D. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-Term Liabilities:				
G.O. Bonds	\$ 32,295,000	\$ -	\$ 2,255,000	\$ 30,040,000
Unamortized Bond Premium	573,026	-	59,294	513,732
Capital Leases	110,596	-	49,034	61,562
Compensated Absences Payable	<u>32,891</u>	<u>93,423</u>	<u>81,840</u>	<u>44,474</u>
Total Long-Term Liabilities	<u>\$ 33,011,513</u>	<u>\$ 93,423</u>	<u>\$ 2,445,168</u>	<u>\$ 30,659,768</u>

NOTE 7 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

	General Fund	Debt Service	Community Service	Building Construction	Nonmajor Funds	Total
Nonspendable:						
Inventory	\$ 34,874	\$ -	\$ -	\$ -	\$ 26,781	\$ 61,655
Prepaid Items	46,905	-	-	-	-	46,905
Total Nonspendable	<u>81,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,781</u>	<u>108,560</u>
Restricted/Reserved for:						
Deferred Maintenance	15,175	-	-	-	-	15,175
Safe Schools - Crime Levy	4,746	-	-	-	-	4,746
Community Education	-	-	561,101	-	-	561,101
Early Childhood and Family Education	-	-	19,973	-	-	19,973
School Readiness	-	-	27,774	-	-	27,774
Community Service	-	-	484	-	-	484
Food Service	-	-	-	-	132,068	132,068
Debt Service	-	553,119	-	-	119,761	672,880
Building Projects	-	-	-	9,491,023	-	9,491,023
Total Restricted/Reserved	<u>19,921</u>	<u>553,119</u>	<u>609,332</u>	<u>9,491,023</u>	<u>251,829</u>	<u>10,925,224</u>
Committed for:						
Separation/Retirement Benefits	141,769	-	-	-	-	141,769
Gillespie Foundation Project	209,316	-	-	-	-	209,316
Total Committed	<u>351,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,085</u>
Assigned for:						
Special Education	200,000	-	-	-	-	200,000
Class Size Reduction	100,000	-	-	-	-	100,000
Student Activities	233,818	-	-	-	-	233,818
Total Assigned	<u>533,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,818</u>
Unassigned	<u>2,484,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,484,606</u>
Total Fund Balance	<u>\$ 3,471,209</u>	<u>\$ 553,119</u>	<u>\$ 609,332</u>	<u>\$ 9,491,023</u>	<u>\$ 278,610</u>	<u>\$ 14,403,293</u>

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

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

Restricted/Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1. para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This account has a UFARS balance of \$ (662,156), which is included in unassigned fund balance as generally accepted accounting principles do not permit negative restrictions.

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs. Of this amount, \$ 33,740 is restricted from donations received in memory of Kelly Nafus.

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

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

Restricted/Reserved for Community Service – This balance represents the remaining balance of the Community Service Fund and is available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

Restricted/Reserved for Building Projects – This balance represents available resources from the issuance of the 2012A school building bonds.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Committed for Gillespie Foundation Projects – This balance represents an amount set aside by the School Board related to a donation received by the Gillespie Foundation.

Assigned – This balance represents estimated amounts that are set aside for special education and class size reduction, as well as the balance of the student activity accounts that are under board control.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – FUND BALANCES/NET POSITION

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service and Debt Service Funds and the effects of the conversion to the government-wide statements.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 state-wide basis. Disclosures relating to these Plans follow.

Teachers' Retirement Association

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or 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* Chapter 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 Statutes* 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 on the following two pages.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association (Continued)

A. Plan Description (Continued)

Tier I Benefits:

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 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:

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

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Tier II Benefits:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.4% 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 also eligible for a refund of their employee contributions plus interest.

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

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 TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. 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 6.5% and 10.0%, respectively, of their annual covered salary during 2013 as employee contributions. The TRA employer contribution rates are 6.5% for Coordinated Plan members and 10.5% for Basic Plan members during 2013. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2013 was approximately \$ 3.92 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2012 and 2011 were \$ 3.87 billion and \$ 3.84 billion, respectively. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 794,489, \$ 728,257 and \$ 660,036, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State 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, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees (nonteacher) of the District are covered by defined benefit plans administered by the 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 or 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.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

A. Plan Description (Continued)

Two methods are used to compute benefits for PERA’s Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERP 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 Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan 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. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. 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 (800) 652-9026.

B. 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District’s contributions to the Public Employees’ Retirement Fund for the years ended June 30, 2014, 2013 and 2012 were \$ 292,792, \$ 283,691 and \$ 261,629, respectively, equal to the contractually required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by HealthPartners. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

School service employees hired before July 1, 2000, have completed 15 years of service and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of \$ 18,500 or \$ 26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the \$ 18,500 or \$ 26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with HealthPartners. The required contributions are based on projected pay-as-you-go financing requirements. For 2014, the District contributed \$ 199,870 to the plan.

As of June 30, 2014, there were approximately 14 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 214 active participants. Of that total, 167 are not yet eligible to receive benefits.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 425,792
Interest on Net OPEB Obligation	3,732
Adjustment to ARC	(4,654)
Annual OPEB Cost (Expense)	<u>424,870</u>
Employer Contributions	<u>(199,870)</u>
Increase in Net OPEB Obligation	225,000
Net OPEB Obligation - Beginning of Year	82,932
Net OPEB Obligation - End of Year	<u><u>\$ 307,932</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/14	\$ 424,870	\$ 199,870	47%	\$ 307,932
06/30/13	426,690	301,977	71%	82,932
06/30/12	435,303	352,074	81%	(41,781)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,359,715 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,359,715. The covered payroll (annual payroll of active employees covered by the plan) was \$ 13,007,901, and the ratio of the UAAL to the covered payroll was 25.8%.

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

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

On April 21, 2009, the District issued \$ 4,095,000 G.O. Taxable OPEB Bonds, Series 2009A to fund part of the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the Post Employment Benefits Revocable Trust Internal Service Fund. As of June 30, 2014, the ending market value of these assets was \$ 4,254,562.

E. Actuarial Methods and Assumptions

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

At the July 1, 2012 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.0% initially, reduced incrementally to an ultimate rate of 5% after 6 years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 24 years.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2014.

On July 1, 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of \$ 2,000 for each dental care claim. The General, Food Service and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 11 – COMMITMENTS

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

<u>Project/Vendor</u>	<u>Project Authorization</u>	<u>Work Completed</u>	<u>Remaining Commitment</u>
Mound Westonka High School	\$ 6,972,193	\$ 6,890,910	\$ 81,283
Shirley Hills Primary	4,918,382	4,893,969	24,413
Various Districtwide Projects	1,699,987	1,464,057	235,930
Hilltop Primary	3,401,243	1,091,174	2,310,069
Grandview Middle School	7,623,538	2,823,271	4,800,267
Architects Engineers	1,363,960	1,294,357	69,603
General Contractor	2,257,512	1,460,304	797,208

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 90,007 to remove deferred charges no longer required to be capitalized in accordance with GASB Statement No. 65. Also, some items previously reported as liabilities on the balance sheet have been reclassified as Deferred Inflows of Resources.

NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
June 30, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/08	\$ -	\$ 3,917,060	\$ 3,917,060	0.0%	\$ 11,691,731	33.5%
07/01/10	-	3,533,073	3,533,073	0.0%	12,649,005	27.9%
07/01/12	-	3,359,715	3,359,715	0.0%	13,007,901	25.8%

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
		Post Employment Benefits Debt Service	Total Nonmajor Funds
	<u>Food Service</u>	<u>Service</u>	<u>Funds</u>
ASSETS			
Cash and Investments	\$ 189,177	\$ 393,422	\$ 582,599
Current Property Taxes Receivable	-	272,449	272,449
Delinquent Property Taxes Receivable	-	10,001	10,001
Due from Department of Education	-	11	11
Inventory	<u>26,781</u>	<u>-</u>	<u>26,781</u>
 Total Assets	 <u>\$ 215,958</u>	 <u>\$ 675,883</u>	 <u>\$ 891,841</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 12,609	\$ -	\$ 12,609
Salaries and Benefits Payable	2,715	-	2,715
Unearned Revenue	<u>41,785</u>	<u>-</u>	<u>41,785</u>
Total Liabilities	<u>57,109</u>	<u>-</u>	<u>57,109</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Delinquent Property Taxes Property Taxes Levied for Subsequent Year's Expenditures	-	4,252	4,252
Total Deferred Inflows of Resources	<u>-</u>	<u>551,870</u>	<u>551,870</u>
		<u>556,122</u>	<u>556,122</u>
 Fund Balances			
Nonspendable	26,781	-	26,781
Restricted	<u>132,068</u>	<u>119,761</u>	<u>251,829</u>
Total Fund Balances	<u>158,849</u>	<u>119,761</u>	<u>278,610</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 215,958</u>	 <u>\$ 675,883</u>	 <u>\$ 891,841</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
		Post Employment Benefits Debt Service	Total Nonmajor Funds
	<u>Food Service</u>	<u>Service</u>	<u>Funds</u>
REVENUES			
Local Property Taxes	\$ -	\$ 585,651	\$ 585,651
Other Local and County Revenues	15,838	-	15,838
Revenue from State Sources	35,463	112	35,575
Revenue from Federal Sources	335,825	-	335,825
Sales and Other Conversion of Assets	752,435	-	752,435
Total Revenues	<u>1,139,561</u>	<u>585,763</u>	<u>1,725,324</u>
EXPENDITURES			
Current			
Food Service	1,122,194	-	1,122,194
Capital Outlay			
Food Service	33,583	-	33,583
Debt Service			
Principal	-	435,000	435,000
Interest and Fiscal Charges	-	115,122	115,122
Total Expenditures	<u>1,155,777</u>	<u>550,122</u>	<u>1,705,899</u>
Excess of Revenues Over (Under) Expenditures	(16,216)	35,641	19,425
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	<u>3,424</u>	-	<u>3,424</u>
Net Change in Fund Balances	(12,792)	35,641	22,849
FUND BALANCES			
Beginning of Year	<u>171,641</u>	<u>84,120</u>	<u>255,761</u>
End of Year	<u>\$ 158,849</u>	<u>\$ 119,761</u>	<u>\$ 278,610</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2014

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 25,311,301	\$ 25,311,300	\$ 1	Total Revenue	\$ 29,848	\$ 29,848	\$ -
Total Expenditures	25,881,809	25,881,809	-	Total Expenditures	16,393,258	16,393,259	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	81,779	81,779	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	15,175	15,175	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(662,156)	(662,156)	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
409 Alternative Facility Program	-	-	-	464 Restricted Fund Balance	9,491,023	9,491,023	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
423 Certain Teacher Programs	-	-	-	Total Revenue	\$ 2,586,148	\$ 2,586,148	\$ -
424 Operating Capital	-	-	-	Total Expenditures	2,481,494	2,481,494	-
426 \$ 25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/Reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted Fund Balance	553,119	553,119	-
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
448 Achievement and Integration	-	-	-	08 TRUST FUND			
449 Safe School Crime	4,746	4,746	-	Total Revenue	\$ 23,176	\$ 23,176	\$ -
450 Transition for Pre-Kindergarten	-	-	-	Total Expenditures	28,685	28,685	-
451 QZAB and QSCB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned Fund Balance (Net Position)	218,156	218,156	-
453 Unfunded Severance and Retirement Levy	-	-	-	20 INTERNAL SERVICE FUND			
<i>Restricted:</i>				Total Revenue	\$ -	\$ -	\$ -
464 Restricted Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for Separation/Retirement Benefits	141,769	141,769	-	422 Unassigned Fund Balance (Net Position)	-	-	-
461 Committed	209,316	209,316	-	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$ 129,533	\$ 129,532	\$ 1
462 Assigned Fund Balance	533,818	533,818	-	Total Expenditures	200,120	200,120	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned Fund Balance	2,484,606	3,146,762	(662,156)	422 Unassigned Fund Balance (Net Position)	4,109,196	4,109,196	-
02 FOOD SERVICE FUND				45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$ 1,139,561	\$ 1,139,562	\$ (1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	1,155,777	1,155,777	-	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable Fund Balance	26,781	26,781	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Restricted/Reserved:</i>				47 OPEB DEBT SERVICE			
452 OPEB Liabilities not Held in Trust	-	-	-	Total Revenue	\$ 585,763	\$ 585,762	\$ 1
<i>Restricted:</i>				Total Expenditures	550,122	550,123	(1)
464 Restricted Fund Balance	132,068	132,068	-	<i>Nonspendable:</i>			
<i>Unassigned:</i>				460 Nonspendable Fund Balance	-	-	-
463 Unassigned Fund Balance	-	-	-	<i>Restricted:</i>			
04 COMMUNITY SERVICE FUND				464 Restricted Fund Balance	119,761	119,760	1
Total Revenue	\$ 2,750,106	\$ 2,750,104	\$ 2	<i>Unassigned:</i>			
Total Expenditures	2,690,760	2,690,757	3	463 Unassigned Fund Balance	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	-	-	-				
<i>Restricted/Reserved:</i>							
426 \$ 25 Taconite	-	-	-				
431 Community Education	561,101	561,102	(1)				
432 ECPE	19,973	19,973	-				
444 School Readiness	27,774	27,774	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	484	484	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 277

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
USDOA	10.555	Commodities Programs (Cluster)	\$ 57,577
USDOA	10.553	School Breakfast Program (Cluster)	24,599
USDOA	10.555	Child Nutrition Type A Lunch (Cluster)	216,806
USDOA	10.556	Special Milk Program (Cluster)	637
USDOA	10.559	Summer Food Service Program (Cluster)	<u>36,206</u>
Total Child Nutrition Cluster			335,825
USDOED	84.010	Title I, Part A	189,161
USDOED	84.027	Special Education (Cluster)	443,086
USDOED	84.173	Special Education Early Childhood (Cluster)	15,098
USDOED	84.027	IDEAS Part B Discretionary Continuous Improvement Monitoring Process (Cluster)	<u>5,000</u>
Total Federal Special Education Cluster			463,184
USDOED	84.367	Title II, Part A - Improving Teacher Quality	68,077
Through Independent School District No. 284			
USDOED	84.181	Infants and Toddlers	8,284
Through Intermediate District No. 287			
USDOED	84.048A	Carl Perkins	<u>9,468</u>
Total Federal Expenditures			<u><u>\$ 1,073,999</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – INVENTORY

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



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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 18, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 14-01, to be a material weakness.



A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance With OMB *Circular A-133* as Audit Finding 02-01, to be a significant deficiency.

Compliance and Other Matters

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

District's Response to the Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
September 18, 2014



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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 277, Minnetrista, Minnesota, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133*.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 277.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 277 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
September 18, 2014

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 14-01
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 02-01
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	Yes

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 14-01

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data requires adequate processes to ensure all required adjustments to the financial statements are identified and properly recorded by District personnel.

Condition:

During the course of our audit, we proposed a material audit adjustment that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements. In order to ensure financial statements were free from material misstatement, an audit adjustment was required to recognize donation revenue in the proper period.

Questioned Costs:

None

Context:

This finding impacts the internal control over financial reporting.

Effect:

Internal controls that fail to identify necessary adjustments could result in material misstatements to the financial statements.

Cause:

There are a limited number of office employees to catch all necessary adjustments.

Recommendation:

Thoroughly review activity for the District throughout the year and ensure all necessary adjustments to the financial data are recorded.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
The District will review all areas before auditors arrive for fieldwork and will contact the auditors when questions arise.

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 14-01 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (CONTINUED)

3. Official Responsible for Ensuring CAP
Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2015.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

Audit Finding 02-01

Criteria or Specific Requirement:

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

Condition:

During the year ended June 30, 2014, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 02-01 (Continued)

Questioned Costs:
None

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

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

Cause:
There are a limited number of office employees.

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

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.
3. Official Responsible for Ensuring CAP
Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2015.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated September 18, 2014.

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

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

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

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
September 18, 2014

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND CORRECTIVE
PLANS ON LEGAL COMPLIANCE
June 30, 2014

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Prompt Payment of Bills

Minnesota Statutes 471.425, subd. 2 requires that bills are to be paid within the time period set by the terms of the contract or within the standard payment period. The standard payment period is 35 days from receipt of goods or services or invoice, whichever is later, for governing boards that meet at least once per month.

During the 2013 audit, we noted 3 of 40 disbursements tested were not paid by the terms of the contract or within the standard payment period. In addition, late payments did not include interest.

CORRECTIVE ACTION TAKEN

During the 2014 audit, no instances were noted of payments made past the time period set by the terms of the contract or within the standard payment period.