

**INDEPENDENT SCHOOL DISTRICT NO. 271
Bloomington, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 271

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INDEPENDENT SCHOOL DISTRICT NO. 271
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2014

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dick Bergstrom	Chair	January 4, 2016
Maureen Bartolotta	Vice Chair	January 4, 2016
Jim Sorum	Clerk	January 1, 2018
Nelly Korman	Treasurer	January 4, 2016
Tom Bennett	Director	January 1, 2018
Ric Oliva	Director	January 1, 2018
Dawn Steigauf	Director	January 1, 2018
<u>Administration</u>		
Les Fujitake	Superintendent	
Rod Zivkovich	Executive Director of Finance and Support Services	
Kim Agate	Controller	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, 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. 271, Bloomington, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 November 19, 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, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
November 19, 2014

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This section of the Independent School District No. 271, Bloomington Public Schools' (the "District") annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is 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*. Certain comparative information is required to be presented in the MD&A between the current year (2013-2014) and the prior year (2012-2013).

FINANCIAL HIGHLIGHTS

- Total net position at June 30, 2014 was \$ 65.2 million, a decrease over prior year's balance of approximately \$ 300,000.
- Overall program and general revenues were \$ 162.3 million, \$ 300,000 less than related expenses of \$ 162.6 million.
- Total General Fund balance (under the governmental fund presentation) increased \$ 240 thousand from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic financial statements
- Required supplementary information

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

1. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status. These include:
 - The Statement of Net Position
 - The Statement of Activities

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

2. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements examine how basic services, such as regular and special education were financed in the short-term as well as what remains for future spending.
 - Proprietary funds statements present short-term and long-term financial information about the activities the District operates like businesses, such as dental and medical self insurance, retiree severance and vacation funds.
 - 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. The District is the Agent for the Bloomington Education Cable Television Fund. The District is also holding funds to be paid to Bloomington Kennedy graduates for college scholarships.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 on the following page shows how the various parts of this annual report are arranged and how they relate to one another.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-1
Organization of the District's Annual Financial Report

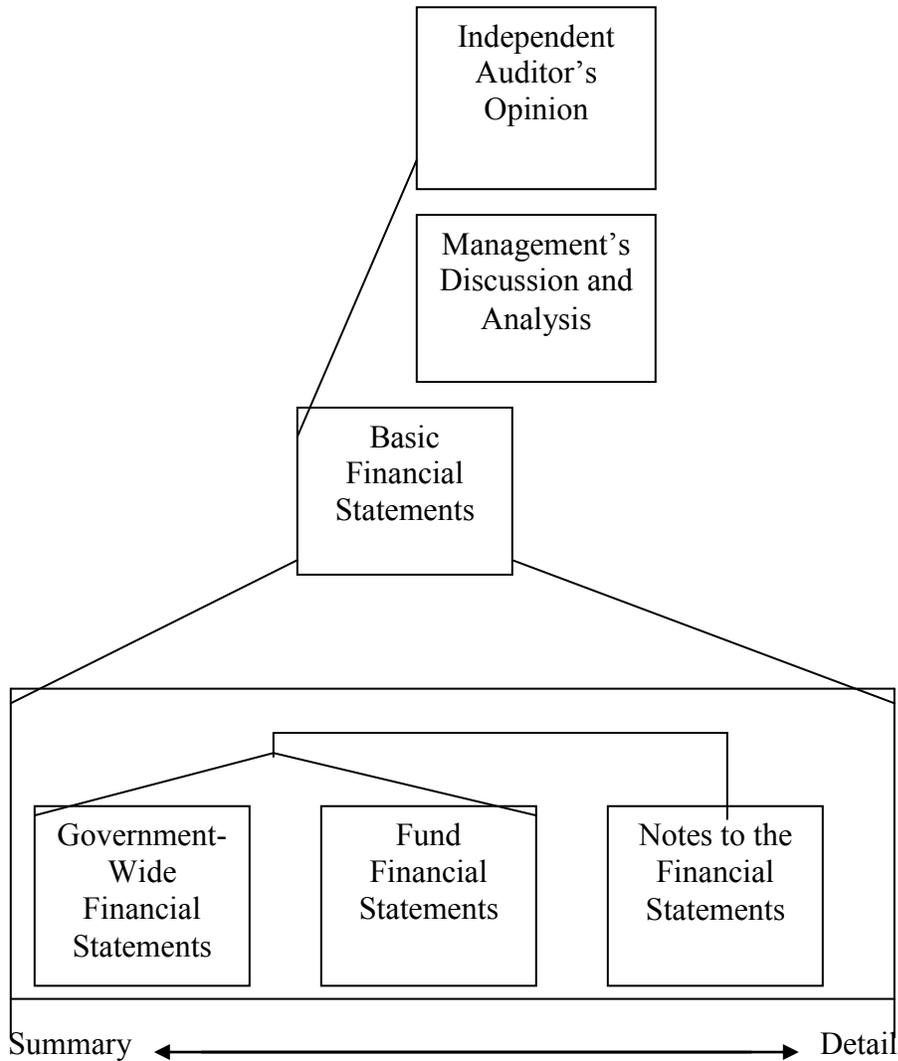


Figure A-2 on the following page summarizes the major features of the District's financial statements, including the portion of the District's activities which they cover and the types of information that they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

INDEPENDENT SCHOOL DISTRICT NO. 271

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
Fund Financial Statements				
	Government-Wide Financial Statements	Government Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	The activities of the District that are not proprietary or fiduciary, such as special education, food service, community education and building maintenance	Activities the District operates similar to private businesses, such as self-insured dental fund	Instances in which the District administers resources on behalf of someone else, such as Bloomington Educational Cable and student activities accounts
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets 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 financial statements report the District's net position and how they have 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 the District's overall health, consideration is given to additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are presented in one category titled governmental activities.

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. State formula aid and property taxes finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. "Non-major" funds such as, food service and community service do not meet the threshold to be classified as "major" funds.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FUND FINANCIAL STATEMENTS

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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- **Proprietary Funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District uses internal service funds to report activities that provide supplies and services for its other programs and activities. The District currently has four internal service funds; the Self-Insured Dental Fund, Self-Insured Medical Benefits Fund, Other Post Employment Benefits (OPEB) Fund and the Retiree Benefits Fund.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the Bloomington Educational Cable Television Fund or the Bloomington Kennedy Trust Fund for scholarships. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it can not use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Net Position: The District's combined net position on June 30, 2014 was \$ 65.2 million, a decrease over the prior year's balance of approximately \$ 300,000. (See Figure A-3.)

Figure A-3
Net Position - Governmental Activities

	Year Ended 2014	Year Ended 2013	Percentage Change
ASSETS			
Current and Other Assets	\$ 136,742,855	\$ 138,304,776	-1.13%
Capital Assets	103,822,707	104,250,167	-0.41%
Total Assets	<u>\$ 240,565,562</u>	<u>\$ 242,554,943</u>	-0.82%
LIABILITIES			
Other Liabilities	\$ 19,404,445	\$ 16,557,273	17.20%
Long-Term Liabilities	111,606,932	130,664,687	-14.59%
Total Liabilities	<u>\$ 131,011,377</u>	<u>\$ 147,221,960</u>	-11.01%
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied for Subsequent Year's Expenditures	\$ 44,338,838	\$ 29,795,421	48.81%
NET POSITION			
Net Investment in Capital Assets	14,934,782	15,398,145	-3.01%
Restricted	10,498,849	11,161,431	-5.94%
Unrestricted	39,781,716	38,977,986	2.06%
Total Net Position	<u>\$ 65,215,347</u>	<u>\$ 65,537,562</u>	-0.49%

Changes in Net Position: The District's total revenues were \$ 162.3 million for the year ended June 30, 2014. (See figure A-4.) Property taxes and state formula aid accounted for 68% of the District's revenue. (See Figure A-5.) Another 24% came from grants and contributions restricted for specific programs. The remainder came from fees charged for services and miscellaneous sources. The total cost of all programs and services was \$ 162.6 million. The District's expenses are predominantly related to direct instructions, instructional, and pupil support services (64%). (See Figure A-6.) The District's administration accounted for 4% of total costs. The net decrease of revenue over expenditures (\$ 300,000) created the \$ 300,000 decrease in net position.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-4
Change in Net Position

	Year Ended 2014	Year Ended 2013	Percentage Change
REVENUES			
Program Revenues:			
Charges for Services	\$ 9,905,110	\$ 9,810,997	0.96%
Operating Grants and Contributions	38,505,298	33,557,185	14.75%
General Revenues:			
Property Taxes	34,148,066	45,146,795	-24.36%
State Aid-Formula Grants	76,877,274	62,415,416	23.17%
Other	2,854,315	1,983,280	43.92%
Total Revenues	<u>162,290,063</u>	<u>152,913,673</u>	6.13%
EXPENSES			
Administration	6,071,520	5,575,279	8.90%
District Support Services	5,972,336	3,756,939	58.97%
Elementary and Secondary Regular Instruction	59,501,678	57,467,259	3.54%
Vocational Education Instruction	1,556,274	2,071,268	-24.86%
Special Education Instruction	24,235,417	22,510,721	7.66%
Instructional Support Services	8,426,562	8,044,975	4.74%
Pupil Support Services	10,498,555	9,241,556	13.60%
Sites and Buildings	16,019,668	15,299,725	4.71%
Fiscal and Other Fixed Cost Programs	335,103	322,295	3.97%
Food Service	5,533,319	4,776,135	15.85%
Community Education and Services	13,473,401	11,743,969	14.73%
Unallocated Depreciation	6,756,326	6,453,679	4.69%
Interest and Fiscal Charges on Long-Term Debt	4,232,119	4,531,928	-6.62%
Total Expenses	<u>162,612,278</u>	<u>151,795,728</u>	7.13%
Increase in Net Position	(322,215)	1,117,945	-128.82%
NET POSITION			
Net Position - Beginning, as Previously Stated	65,537,562	64,723,230	1.26%
Change in Accounting Principle	-	(303,613)	-100.00%
Net Position - Beginning, as Restated	<u>65,537,562</u>	<u>64,419,617</u>	1.74%
End of Year	<u>\$ 65,215,347</u>	<u>\$ 65,537,562</u>	-0.49%

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-5
Source of Revenues for Fiscal Year 2014

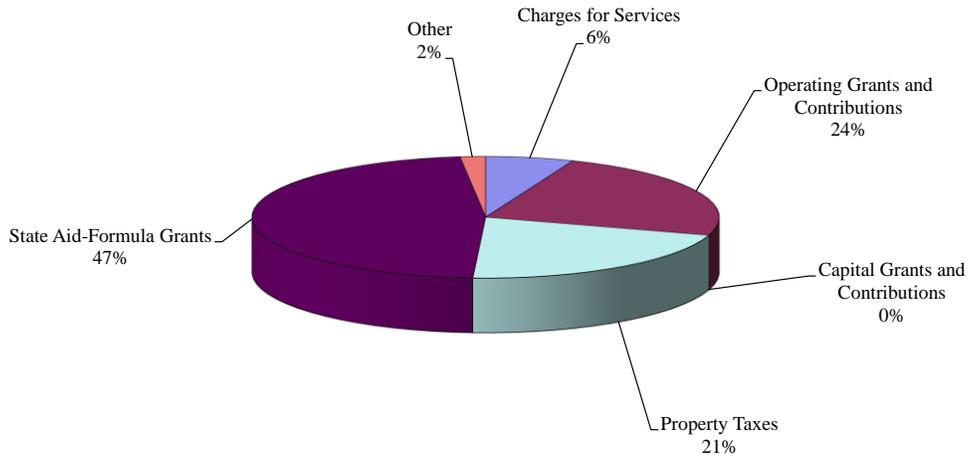
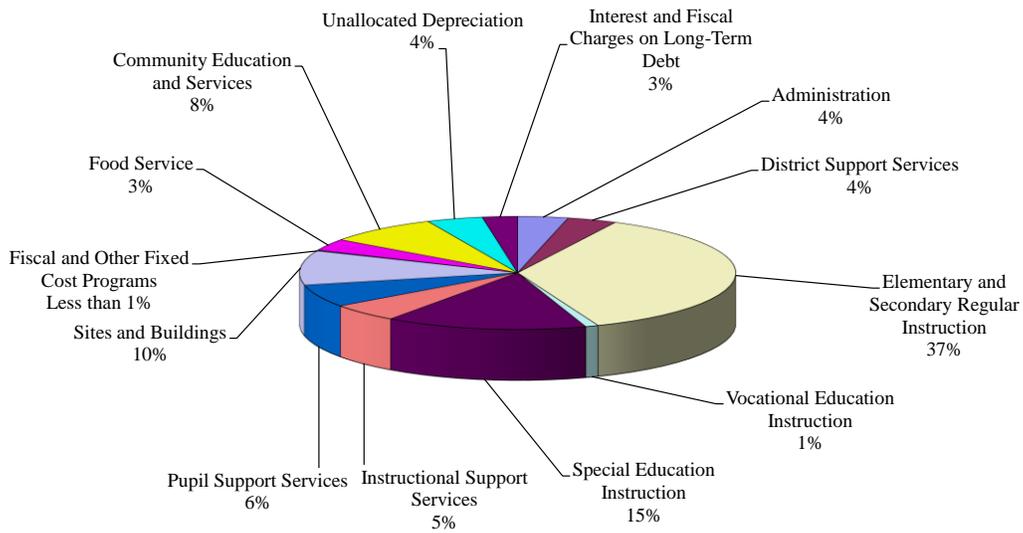


Figure A-6
Expenses for Fiscal Year 2014



INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GOVERNMENTAL ACTIVITIES

Figure A-7 presents the cost of District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

Figure A-7

Net Cost of Governmental Activities
Year Ended June 30, 2014

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Administrative	\$ 6,071,520	\$ 6,071,520
District Support Services	5,972,336	5,972,336
Elementary and Secondary Regular Instruction	59,501,678	44,789,877
Vocational Education Instruction	1,556,274	1,500,969
Special Education Instruction	24,235,417	8,050,448
Instructional Support Services	8,426,562	8,426,562
Pupil Support Services	10,498,555	10,202,346
Sites and Buildings	16,019,668	14,599,414
Fiscal and Other Fixed Cost Programs	335,103	335,103
Food Service	5,533,319	671,415
Community Education and Services	13,473,401	2,593,435
Unallocated Depreciation	6,756,326	6,756,326
Interest and Fiscal Charges on Long-Term Debt	4,232,119	4,232,119
Total	<u>\$ 162,612,278</u>	<u>\$ 114,201,870</u>

- Approximately 6.1% or \$ 9.9 million, of expenses were paid by users of District services through various fees.
- Other specific program's costs are offset with grants and contributions totaling \$ 38.5 million, or 23.1%, of expenses for 2013-2014.
- The net cost of District services (\$ 114.2 million) was paid for with local property taxes, state aid, federal grants and from District fund balances when expenses exceed revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the end of the 2013-2014 fiscal year, the District's governmental funds reported a combined fund balance of \$ 45,634,938, a decrease of \$ 20,249,109 from the June 30, 2013 combined fund balance of \$ 65,884,047.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014

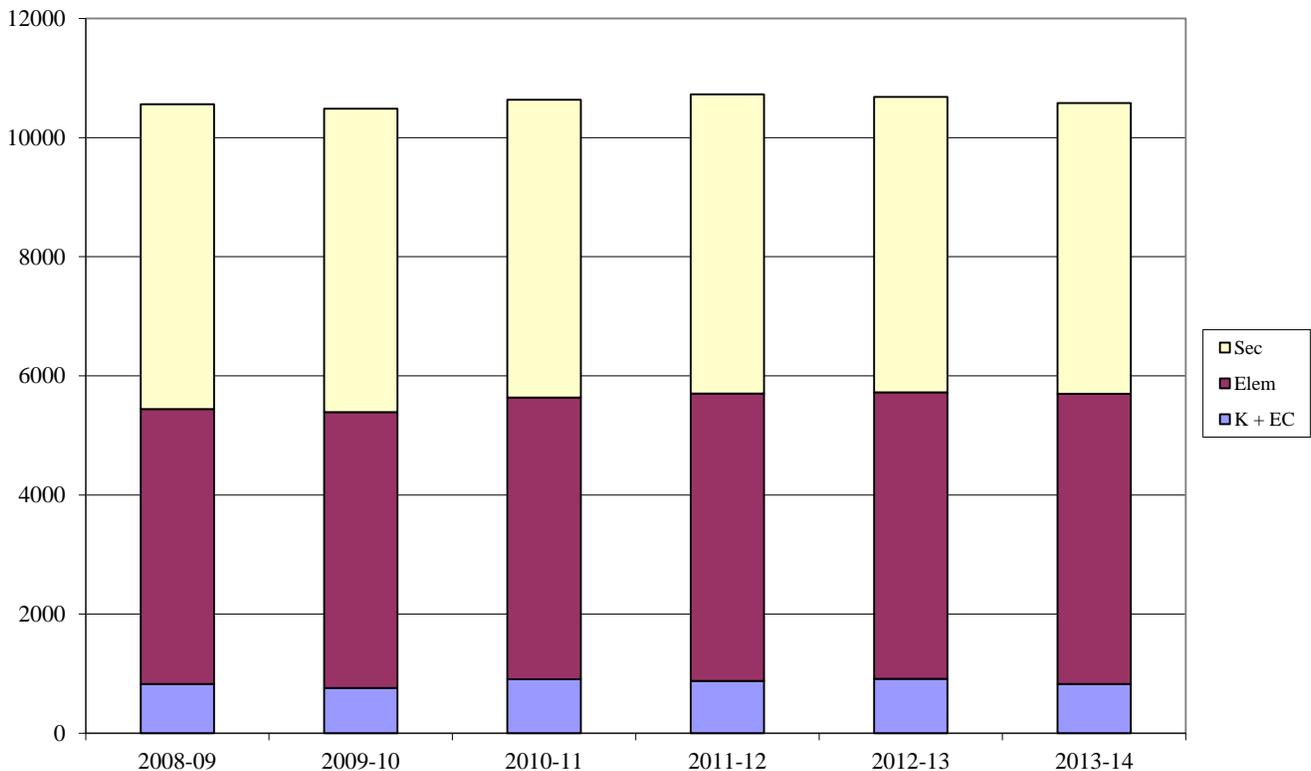
GENERAL FUND

The General Fund is the District’s primary operating fund, providing instructional services to students from kindergarten through grade 12. In addition, the costs of pupil transportation and operating capital expenditures for equipment, facilities and health and safety are included in the full reporting of the General Fund.

School funding in Minnesota is driven largely by pupil enrollment. In 2013-2014, the District saw a decrease of 103 average daily membership (ADM) over 2012-2013. Current ADM is 10,581.

The graph below illustrates the current trend in student enrollment over the previous five years.

ADM (Average Daily Memberships)



GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended the annual operating budget. The budget amendments account for enrollment changes, previous year carryover and amendments to federal and other grant programs.

While the District’s amended budget for the General Fund projected a net decrease in the fund balance of \$ 5.5 million, the actual performance shows a net increase of \$ 240 thousand.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$ 126.1 million or \$ 1.5 million over the budget of \$ 124.6 million, due to the increase in special revenue and property tax abatements. Actual expenditures were \$ 125.2 million, or \$ 3.6 million under the budget of \$ 128.8 million, timing on spending from new K and College/Career space, vehicles for transportation, and technology/safety projects, other areas of lower expenditures were out of district tuition and federal spending. The District also closely monitored and managed costs in all other areas.

Figure A-8
General Fund Expenditures

	Final Budget	Net Actual Amounts	Variance with Final Budget - Over (Under)
Administrative	\$ 5,838,464	\$ 6,079,634	\$ 241,170
District Support Services	5,090,793	5,009,564	(81,229)
Elementary and Secondary Regular Instruction	57,827,706	58,890,681	1,062,975
Vocational Education Instruction	2,090,401	1,550,238	(540,163)
Special Education Instruction	26,795,543	24,264,342	(2,531,201)
Instructional Support Services	8,431,251	7,726,727	(704,524)
Pupil Support Services	9,277,195	9,747,788	470,593
Sites and Buildings	8,814,847	8,780,843	(34,004)
Fiscal and Other Fixed Cost Programs	375,900	335,103	(40,797)
Capital Outlay	4,300,018	2,817,897	(1,482,121)
Total	\$ 128,842,118	\$ 125,202,817	\$ (3,639,301)

FOOD SERVICE FUND

The Food Service Fund is used to record financial activity for the purpose of preparation and service of milk, meals and snacks in connection with school and community service activities. The Food Service Fund expenditures exceeded revenues by \$ 659,657 in 2013-2014. The reason this deficit was decline in revenue due to new federal lunch and breakfast guidelines and four weather closing days, which caused decline in participation. Expenditures were affected by high meal cost (due to guideline changes), salaries during snow days and delayed equipment purchases from prior year.

This Fund continues to meet the District's established fund balance goals.

COMMUNITY SERVICE FUND

The Community Service Fund is used to record financial activities of the Community Services Preschool to Senior Citizens Programs. The Community Service Fund balance decreased \$ 1,085,934 in 2013-2014. The decrease resulted from implementation of additional pre-k programming, moving final fund balance of Kinder Plus and the reversal of funds from 2012-13 for development of College and Career program to General Fund.

This Fund continues to meet the District's established fund balance goals.

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

DEBT SERVICE FUND

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital or for initial or refunding bonds. The Debt Service Fund balance for 2013-2014 totaled \$ 1.4 million. The fund balance was \$ 13.5 million in 2012-2013. The decrease was due to a bond refunding paid in August 2013.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested \$ 103.8 million in a broad range of capital assets, including school buildings, athletic facilities, computers and audio-visual equipment. (See Figure A-8.) (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Figure A-9
Capital Assets

	<u>Year Ended</u> 2014	<u>Year Ended</u> 2013
Land	\$ 2,166,126	\$ 2,166,126
Construction in Progress	2,035,641	3,287,023
Buildings and Buildings Improvement	94,580,766	92,488,109
Furniture and Equipment	<u>5,040,174</u>	<u>6,308,909</u>
Total Capital Assets	<u><u>\$ 103,822,707</u></u>	<u><u>\$ 104,250,167</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 271
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

DEBT ADMINISTRATION

Figure A-10
Outstanding Long-Term Liabilities

	Year Ended 2014	Year Ended 2013
General Obligation (G.O.) Bonds	\$ 107,996,123	\$ 127,527,330
Benefits Payable	1,598,100	1,507,495
Total Long-Term Liabilities	\$ 109,594,223	\$ 129,034,825

At year-end, the District had \$ 109 million in long-term liabilities, including G.O. bonds, capital leases, severance benefits and compensated absences. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.) The increase was due to the sale of Alternative Facility Bonds in May 2014.

The June 30, 2014, Debt Service Fund balance of \$ 1.4 million is available for meeting future debt service obligations, in addition to levied property taxes payable in 2014.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The current state and federal budget deficits have required the District to continue to position itself financially for anticipated flat or limited funding in the future. The District's current financial position allows the District to deal with these uncertainties over the next four years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

If you have questions about this report or need additional financial information, contact the Finance Office, Independent School District No. 271, 1350 West 106th Street, Bloomington, Minnesota 55431-4126.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 271

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS	
Cash and Investments	\$ 96,742,807
Current Property Taxes Receivable	23,926,155
Delinquent Property Taxes Receivable	213,533
Accounts Receivable	295,828
Interest Receivable	170,248
Due from Department of Education	9,880,549
Due from Other Minnesota School Districts	890,667
Due from Federal Government through Department of Education	3,092,209
Due from Other Governmental Units	846,480
Inventory	578,565
Prepaid Items	105,814
Capital Assets Not Being Depreciated:	
Land	2,166,126
Construction in Progress	2,035,641
Capital Assets Net of Depreciation:	
Buildings and Building Improvements	94,580,766
Furniture and Equipment	5,040,174
	<hr/>
Total Assets	\$ 240,565,562
	<hr/> <hr/>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts and Contracts Payable	\$ 3,184,858
Salaries and Benefits Payable	12,860,504
Interest Payable	1,796,554
Due to Other Minnesota School Districts	484,875
Due to Other Governmental Units	22,794
Unearned Revenue	989,042
Property Tax Shift Adjustment	65,818
Net Bond Principal Payable:	
Due Within One Year	5,940,000
Due in More than One Year	101,619,968
Loan Payable:	
Due Within One Year	43,682
Due in More than One Year	392,473
Compensated Absences Payable:	
Due Within One Year	112,610
Due in More than One Year	1,013,489
Severance Payable:	
Due Within One Year	47,200
Due in More than One Year	424,801
Unfunded OPEB Obligation	2,012,709
Total Liabilities	<hr/> 131,011,377 <hr/>
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	<hr/> 44,338,838 <hr/>
Net Position	
Net Investment in Capital Assets	14,934,782
Restricted for:	
Other Purposes	10,498,849
Unrestricted	39,781,716
Total Net Position	<hr/> 65,215,347 <hr/>
Total Liabilities, Deferred Inflows of Resources and Net Position	<hr/> \$ 240,565,562 <hr/> <hr/>

INDEPENDENT SCHOOL DISTRICT NO. 271

**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	\$ 6,071,520	\$ -	\$ -	\$ -	\$ (6,071,520)
District Support Services	5,972,336	-	-	-	(5,972,336)
Elementary and Secondary Regular Instruction	59,501,678	657,950	14,053,851	-	(44,789,877)
Vocational Education Instruction	1,556,274	-	55,305	-	(1,500,969)
Special Education Instruction	24,235,417	227,445	15,957,524	-	(8,050,448)
Instructional Support Services	8,426,562	-	-	-	(8,426,562)
Pupil Support Services	10,498,555	77,055	219,154	-	(10,202,346)
Sites and Buildings	16,019,668	181,945	1,238,309	-	(14,599,414)
Fiscal and Other Fixed Cost Programs	335,103	-	-	-	(335,103)
Food Service	5,533,319	2,006,359	2,855,545	-	(671,415)
Community Education and Services	13,473,401	6,754,356	4,125,610	-	(2,593,435)
Unallocated Depreciation	6,756,326	-	-	-	(6,756,326)
Interest and Fiscal Charges on Long-Term Debt	4,232,119	-	-	-	(4,232,119)
Total Governmental Activities	<u>\$ 162,612,278</u>	<u>\$ 9,905,110</u>	<u>\$ 38,505,298</u>	<u>\$ -</u>	<u>(114,201,870)</u>
General Revenues					
Taxes:					
					16,397,862
					10,677,414
					1,044,062
					6,028,728
					76,877,274
					2,555,649
					298,666
					<u>113,879,655</u>
					(322,215)
					<u>65,537,562</u>
					<u>\$ 65,215,347</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

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

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 48,117,935	\$ 5,622,870	\$ 9,322,691	\$ 5,094,123	\$ 68,157,619
Current Property Taxes Receivable	18,555,831	4,127,295	-	1,243,029	23,926,155
Delinquent Property Taxes Receivable	154,125	46,943	-	12,465	213,533
Accounts Receivable	184,274	-	-	111,554	295,828
Interest Receivable	48,481	-	7,854	-	56,335
Due from Department of Education	9,453,831	111,467	57,666	257,585	9,880,549
Due from Federal Government through Department of Education	2,898,119	-	-	194,090	3,092,209
Due from Other Minnesota School Districts	199,345	-	-	691,322	890,667
Due from Other Governmental Units	846,480	-	-	-	846,480
Inventory	468,463	-	-	110,102	578,565
Prepaid Items	102,844	-	-	2,970	105,814
Total Assets	\$ 81,029,728	\$ 9,908,575	\$ 9,388,211	\$ 7,717,240	\$ 108,043,754
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 863,027	\$ -	\$ 1,946,066	\$ 35,097	\$ 2,844,190
Contracts Payable	12,449	-	327,914	-	340,363
Salaries and Benefits Payable	10,374,744	-	1,033	1,083,392	11,459,169
Due to Other Minnesota School Districts	455,432	-	-	29,443	484,875
Due to Other Governmental Units	22,414	-	-	380	22,794
Interfund Payable	1,370,145	-	-	200,331	1,570,476
Unearned Revenue	707,972	-	-	281,070	989,042
Property Tax Shift Adjustment	65,818	-	-	-	65,818
Total Liabilities	13,872,001	-	2,275,013	1,629,713	17,776,727
Deferred Inflows of Resources					
Property Tax Levied for Subsequent Year's Expenditures	33,407,586	8,401,008	-	2,530,244	44,338,838
Unavailable Revenue - Delinquent Property Taxes	212,002	64,249	-	17,000	293,251
Total Deferred Inflows of Resources	33,619,588	8,465,257	-	2,547,244	44,632,089
Fund Balances					
Nonspendable for:					
Inventory	468,463	-	-	110,102	578,565
Prepaid Items	102,844	-	-	2,970	105,814
Restricted for:					
Capital Projects Levy	1,439,727	-	-	-	1,439,727
Operating Capital	5,432,289	-	-	-	5,432,289
Area Learning Center	418,353	-	-	-	418,353
Career Technical Programs	8,000	-	-	-	8,000
Alternative Facilities Program	-	-	7,113,198	-	7,113,198
Fund Purpose	-	1,443,318	-	3,427,211	4,870,529
Committed for:					
Workers Compensation	235,000	-	-	-	235,000
Medical Assistance/ Third Party	214,246	-	-	-	214,246
Wellness	82,629	-	-	-	82,629
Uniform and Instrument Replacement	84,259	-	-	-	84,259
Operating Referendum	7,684,455	-	-	-	7,684,455
Transportation Bus Purchases	1,000,000	-	-	-	1,000,000
Transportation Building	1,000,000	-	-	-	1,000,000
Transportation	3,299,780	-	-	-	3,299,780
Severance Insurance	2,193,875	-	-	-	2,193,875
Technology Replacement	1,799,045	-	-	-	1,799,045
Energy Savings	1,000,000	-	-	-	1,000,000
Security Systems	250,000	-	-	-	250,000
Athletic Activities	122,159	-	-	-	122,159
Q Comp	97,400	-	-	-	97,400
All Day Kindergarten	878,219	-	-	-	878,219
Staff Development	253,075	-	-	-	253,075
Unassigned	5,474,321	-	-	-	5,474,321
Total Fund Balances	33,538,139	1,443,318	7,113,198	3,540,283	45,634,938
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 81,029,728	\$ 9,908,575	\$ 9,388,211	\$ 7,717,240	\$ 108,043,754

INDEPENDENT SCHOOL DISTRICT NO. 271

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

Total Fund Balances - Governmental Funds	\$ 45,634,938
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	213,824,499
Less Accumulated Depreciation	(110,001,792)
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	(106,240,000)
Loan Payable	(436,155)
Bond Premiums	(1,319,968)
Compensated Absences Payable	(1,126,099)
Severance Payable	(472,001)
Net OPEB Obligation	(2,012,709)
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.	
	293,251
The Retiree Benefit and OPEB Internal Service Funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	
	21,881,110
The Dental and Self Insured Medical Benefit Plans Internal Service Funds are used by management to charge the costs of the self-insured plans. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Position and interfund activity is removed.	
	6,986,827
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	
	<u>(1,796,554)</u>
Total Net Position - Governmental Activities	<u>\$ 65,215,347</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

**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>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Local Property Taxes	\$ 16,304,254	\$ 9,686,676	\$ 6,028,728	\$ 2,005,381	\$ 34,025,039
Other Local and County Revenues	3,656,098	7,977	672,758	6,443,863	10,780,696
Revenue from State Sources	101,643,479	1,114,672	576,663	3,630,470	106,965,284
Revenue from Federal Sources	4,397,787	-	-	2,997,902	7,395,689
Sales and Other Conversion of Assets	100,415	-	-	1,982,319	2,082,734
Interdistrict Revenue	-	-	-	701,231	701,231
Total Revenues	<u>126,102,033</u>	<u>10,809,325</u>	<u>7,278,149</u>	<u>17,761,166</u>	<u>161,950,673</u>
EXPENDITURES					
Current					
Administration	6,079,634	-	-	-	6,079,634
District Support Services	5,009,564	-	-	-	5,009,564
Elementary and Secondary Regular					
Instruction	58,890,681	-	-	175,000	59,065,681
Vocational Education Instruction	1,550,238	-	-	-	1,550,238
Special Education Instruction	24,264,342	-	-	-	24,264,342
Instructional Support Services	7,726,727	-	-	-	7,726,727
Pupil Support Services	9,747,788	-	-	-	9,747,788
Sites and Buildings	8,780,843	-	1,009,513	-	9,790,356
Fiscal and Other Fixed Cost Programs	335,103	-	-	-	335,103
Food Service	-	-	-	5,502,188	5,502,188
Community Education and Services	-	-	-	13,503,996	13,503,996
Capital Outlay					
Administration	14,957	-	-	-	14,957
District Support Services	1,068,662	-	-	-	1,068,662
Elementary and Secondary Regular					
Instruction	376,241	-	-	-	376,241
Vocational Education Instruction	6,883	-	-	-	6,883
Special Education Instruction	45,518	-	-	-	45,518
Instructional Support Services	663,049	-	-	-	663,049
Pupil Support Services	2,609	-	-	-	2,609
Sites and Buildings	639,978	-	12,952,564	-	13,592,542
Food Service	-	-	-	21,384	21,384
Community Education and Services	-	-	-	19,422	19,422
Debt Service					
Principal	-	18,915,000	-	285,000	19,200,000
Interest and Fiscal Charges	-	4,009,218	-	624,556	4,633,774
Total Expenditures	<u>125,202,817</u>	<u>22,924,218</u>	<u>13,962,077</u>	<u>20,131,546</u>	<u>182,220,658</u>
Excess of Revenues Over (Under) Expenditures	899,216	(12,114,893)	(6,683,928)	(2,370,380)	(20,269,985)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	20,876	-	-	-	20,876
Transfers In	-	-	-	680,404	680,404
Transfers Out	(680,404)	-	-	-	(680,404)
Total Other Financing Sources (Uses)	<u>(659,528)</u>	<u>-</u>	<u>-</u>	<u>680,404</u>	<u>20,876</u>
Net Change in Fund Balances	239,688	(12,114,893)	(6,683,928)	(1,689,976)	(20,249,109)
FUND BALANCES					
Beginning of Year	<u>33,298,451</u>	<u>13,558,211</u>	<u>13,797,126</u>	<u>5,230,259</u>	<u>65,884,047</u>
End of Year	<u>\$ 33,538,139</u>	<u>\$ 1,443,318</u>	<u>\$ 7,113,198</u>	<u>\$ 3,540,283</u>	<u>\$ 45,634,938</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 271

**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	\$ (20,249,109)
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 useful lives as depreciation expense.	
Capital Outlays	7,577,900
Depreciation Expense	(7,824,628)
Loss on Disposal	(180,732)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(90,605)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(382,847)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	19,241,115
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.	111,563
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	290,092
The Retiree Benefit Internal Service Funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	225,528
The Dental and Self-Insured Medical Benefit Plans Internal Service Funds are used by management to charge the costs of the self insured plans. The increase in net position is reported within the governmental activities in the Statement of Activities.	836,481
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.	<u>123,027</u>
Change in Net Position - Governmental Activities	<u>\$ (322,215)</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
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	\$ 29,781,542	\$ 30,118,038	\$ 16,304,254	\$ (13,813,784)
Other Local and County Revenues	2,887,916	2,883,600	3,656,098	772,498
Revenue from State Sources	86,298,287	86,723,804	101,643,479	14,919,675
Revenue from Federal Sources	4,431,492	4,913,391	4,397,787	(515,604)
Sales and Other Conversion of Assets	3,000	3,000	100,415	97,415
Total Revenues	<u>123,402,237</u>	<u>124,641,833</u>	<u>126,102,033</u>	<u>1,460,200</u>
EXPENDITURES				
Current				
Administration	5,499,922	5,838,464	6,079,634	241,170
District Support Services	4,904,185	5,090,793	5,009,564	(81,229)
Elementary and Secondary Regular Instruction	55,841,153	57,827,706	58,890,681	1,062,975
Vocational Education Instruction	2,436,016	2,090,401	1,550,238	(540,163)
Special Education Instruction	24,697,995	26,795,543	24,264,342	(2,531,201)
Instructional Support Services	10,803,881	8,431,251	7,726,727	(704,524)
Pupil Support Services	9,106,050	9,277,195	9,747,788	470,593
Sites and Buildings	9,051,661	8,814,847	8,780,843	(34,004)
Fiscal and Other Fixed Cost Programs	375,900	375,900	335,103	(40,797)
Capital Outlay				
Administration	125,961	121,706	14,957	(106,749)
District Support Services	81,790	1,239,110	1,068,662	(170,448)
Elementary and Secondary Regular Instruction	350,266	354,421	376,241	21,820
Vocational Education Instruction	-	-	6,883	6,883
Special Education Instruction	49,000	59,200	45,518	(13,682)
Instructional Support Services	304,620	1,272,317	663,049	(609,268)
Pupil Support Services	717,278	718,388	2,609	(715,779)
Sites and Buildings	2,688,772	534,876	639,978	105,102
Total Expenditures	<u>127,034,450</u>	<u>128,842,118</u>	<u>125,202,817</u>	<u>(3,639,301)</u>
Excess of Revenues Under (Over) Expenditures	(3,632,213)	(4,200,285)	899,216	5,099,501
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	63,000	63,000	20,876	(42,124)
Transfers Out	(1,311,801)	(1,311,801)	(680,404)	631,397
Total Other Financing Sources (Uses)	<u>(1,248,801)</u>	<u>(1,248,801)</u>	<u>(659,528)</u>	<u>589,273</u>
Net Change in Fund Balances	<u>\$ (4,881,014)</u>	<u>\$ (5,449,086)</u>	239,688	<u>\$ 5,688,774</u>
FUND BALANCES				
Beginning of Year			<u>33,298,451</u>	
End of Year			<u>\$ 33,538,139</u>	

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

INDEPENDENT SCHOOL DISTRICT NO. 271

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2014

	Governmental Activities - Internal Service Funds
ASSETS	
Cash and Cash Equivalents	\$ 14,945,560
Investments	13,639,628
Interfund Receivable	1,570,476
Interest Receivable	113,913
	<hr/>
Total Assets	\$ 30,269,577
	<hr/> <hr/>
LIABILITIES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 305
Incurred but not Reported Claims	1,401,335
Benefits Payable	1,126,099
Unearned Revenue	4,360,502
	<hr/>
Total Liabilities	6,888,241
	<hr/>
Net Position	
Unrestricted	23,381,336
	<hr/>
Total Liabilities and Net Position	\$ 30,269,577
	<hr/> <hr/>

INDEPENDENT SCHOOL DISTRICT NO. 271

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	Governmental Activities - Internal Service Funds
OPERATING REVENUE	
Charges for Services	\$ 18,710,430
District Contribution	669,036
Total Revenue	<u>19,379,466</u>
OPERATING EXPENSES	
Salaries and Benefits	33,000
Employee Benefits	17,191,631
Administrative	1,732,956
Total Operating Expenses	<u>18,957,587</u>
Operating Income	421,879
NONOPERATING REVENUE	
Investment Income	<u>216,363</u>
Change in Net Position	638,242
NET POSITION	
Beginning of Year	<u>22,743,094</u>
End of Year	<u><u>\$ 23,381,336</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 271

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	Governmental Activities - Internal Service Funds
	<hr/>
CASH FLOWS - OPERATING ACTIVITIES	
Receipts from Employee Contributions	\$ 18,908,095
Receipts from District Contributions	725,817
Employee Claims Paid	(17,188,631)
Payments to Employees	(33,000)
Payments to Suppliers	(1,738,901)
Net Cash Flows - Operating Activities	<hr/> 673,380
 CASH FLOWS - INVESTMENT ACTIVITIES	
Investment Purchases	(938,170)
Interest Received	216,735
Net Cash Flows - Investment Activities	<hr/> (721,435)
 Net Change in Cash and Cash Equivalents	(48,055)
 CASH AND CASH EQUIVALENTS	
Beginning of Year	<hr/> 14,993,615
 End of Year	<hr/> <hr/> \$ 14,945,560
 RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS - OPERATING ACTIVITIES	
Operating Income	\$ 421,879
Adjustments to Reconcile Operating Income to Net Cash Flows - Operating Activities:	
Accounts Payable	(5,945)
Benefits Payable	56,781
Incurred but not Reported Dental Claims	3,000
Accounts Receivable	18
Interfund Receivable	(169,464)
Unearned Revenue	366,986
Prepaid Items	125
Net Adjustments	<hr/> 251,501
Net Cash Flows - Operating Activities	<hr/> <hr/> \$ 673,380

INDEPENDENT SCHOOL DISTRICT NO. 271
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

	Agency Fund	Private Purpose Trust Fund
ASSETS		
Current		
Cash and Investments	\$ 217,806	\$ 141,813
LIABILITIES		
Accounts Payable	\$ 93,833	\$ -
Salaries and Benefits Payable	1,325	-
Other Liabilities	122,648	-
Total Liabilities	\$ 217,806	-
NET POSITION		
Held in Trust		\$ 141,813

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

		Private Purpose Trust Fund
ADDITIONS		
Interest Revenue		\$ 29
DEDUCTIONS		
Scholarships		9,250
Change in Net Position		(9,221)
NET POSITION		
Beginning of Year		151,034
End of Year		\$ 141,813

INDEPENDENT SCHOOL DISTRICT NO. 271

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.

1. Joint Ventures

The Metropolitan Learning Alliance (MLA), which was formed in 1991, is an organization through which four school districts (Bloomington, Minneapolis, Richfield and St. Paul), jointly and cooperatively, in collaboration with the Mall of America business community, established innovative educational programming at a satellite site located in the Mall of America. The governing body consists of a Board of Trustees, where each district has two representatives serving on the Board of Trustees, one is a school board member and one is the Superintendent. Each member district is entitled to one vote at regular and special meetings. The MLA is subjected to an annual audit; the annual audited financial statements are available upon request from the MLA.

This joint venture is funded by the participating districts paying tuition for their resident pupils to cover all current operating expenses. Although the districts have equal equity interest, the amount at the end of each fiscal year is minimal. During the year ended June 30, 2014, MLA dissolved and remaining equity interests were distributed.

The Bloomington Education Foundation is a separate legal entity, established as a nonprofit organization. This Organization is not under the School Board's control; therefore, its financial activities are not included in this report.

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District applies restricted resources first when an expense is incurred for 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 the fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Agency Fund and Private Purpose Trust Fund are 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, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. 271

**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 fiscal 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 balances are available. Further, the District applies unrestricted funds in this order if various levels of restricted fund balances exist: committed, assigned, unassigned.

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 and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 bond principal, interest and related costs.

INDEPENDENT SCHOOL DISTRICT NO. 271

**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)

Major Funds (Continued):

Capital Projects – Building Construction Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities funded with bond issues or special levies.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

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.

OPEB Debt Service – This Fund is used to account for the accumulation of resources for, and payment of, the 2009A OPEB Bonds.

Fiduciary Funds:

Agency Fund – This Fund is used to account for assets held by the District for the Bloomington education cable television.

Private Purpose Trust Fund – This Fund is used to account for assets held by the District to be used for scholarships.

Proprietary Funds:

Internal Service Funds – These Funds are used to account for self insured employee dental and medical costs and related stop loss insurance and retiree benefits and OPEB obligations.

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described as follows.

All governmental, fiduciary and proprietary funds of the District, except for the OPEB Fund, participate in a government-wide investment pool. Cash balances from these funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The investment pool of the District functions essentially as a demand account for all participating funds. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and the State Investment Pool. Investments are stated at fair value.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

The District's cash and cash equivalents in its OPEB Internal Service Fund are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. For all other proprietary funds, the District maintains an internal investment pool; each fund's position in this pool is considered a cash equivalent.

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.

Minnesota School District Liquid Asset Fund (MSDLAF) and the Minnesota Trust Investment Shares are external investment pools not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Custodial Credit Risk – Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District.

Interest Rate Risk: The District's investment policy states investments will be managed in a manner to attain market rate of return through various economic and budgetary cycles while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: The District's policy states it may invest in any type of security allowed by *Minnesota Statutes* with limits. In addition, commercial paper must be rated at the highest classifications by two of the four nationally recognized rating services.

Concentration of Credit Risk: The District's investment policy states investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector, limiting investments in securities that have higher credit risks, investing in securities with varying maturities and continuously investing a portion of the portfolio in readily available funds to ensure appropriate liquidity is maintained in order to meet ongoing obligations. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in a single type of investment instrument.

Custodial Credit Risk – Investments: The District's investment policy states all investment securities shall be held in third party safekeeping by an institution designated as custodial agent. 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.

Interest is allocated among the funds based on the monthly cash balance.

INDEPENDENT SCHOOL DISTRICT NO. 271

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 represent 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.

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 fiscal 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 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 the Counties of Hennepin and Scott.

Property tax levies are certified to the County Auditors 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 counties spread all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remit 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.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 one year. 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.

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 50 years for buildings and building improvements and 3 to 20 years for furniture and 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 items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

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

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. 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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

M. Compensated Absences

The District compensates most full-time classified employees upon termination of employment for unused vacation up to a set maximum. At June 30, 2014, the District recorded a liability of \$ 1,126,099 for unused vacation in the Internal Service Fund.

District employees are entitled to sick leave at various rates for each month of full-time service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

N. Fund Equity

1. Classification

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 those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.
- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.
- Assigned Fund Balances – The School Board delegates to the Superintendent, the authority to assign fund balances for specific purposes.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Fund Equity (Continued)

1. Classification (Continued)

- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to a specific purpose in the General Fund.

The District's policy is to spend resources from fund balance classifications in the following order (first to last) if resources from more than one fund balance classification could be spent: restricted, committed, assigned and unassigned.

2. Minimum Fund Balance Policy

The District will strive to maintain a General Fund unassigned minimum fund balance of 5% and a maximum of 8% of General Fund operating expenditures. When the District is projected to drop below its minimum fund balance, District administration shall initiate measures to either generate additional revenue or to reduce expenditures through a budget reduction plan, or a combination of both.

O. Net Position

Net Position represents the difference between assets 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.

P. 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.

INDEPENDENT SCHOOL DISTRICT NO. 271
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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 Executive Director of Finance and Support Services submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Executive Director of Finance and Support Services 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, Capital Projects and Debt Service Funds.
4. Budgets for the General and Special Revenue 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.

B. Excess of Expenditures Over Appropriations

Budgetary control for governmental funds is established by each fund’s total appropriations. Expenditures exceeded appropriations in the following Funds for the year ending June 30, 2014:

	Appropriations	Expenditures
Major Funds:		
Debt Service	\$ 22,482,825	\$ 22,924,218
Nonmajor Funds:		
Food Service	5,478,571	5,523,572
Community Service	13,495,724	13,698,418

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.

As of June 30, 2014, the District was not exposed to custodial credit risk on deposits

INDEPENDENT SCHOOL DISTRICT NO. 271

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:

<u>Investment</u>	<u>Weighted Average Maturities (In Years)</u>	<u>Fair Value</u>	<u>S&P Rating</u>
Pooled Investments:			
MSDLAF+ Liquid Class	N/A	\$ 5,988,395	AAAm
MSDLAF+ Max Class	N/A	1,551,524	AAAm
Minnesota Trust Investment Shares	N/A	19,132,655	AAAm
Negotiable Certificates of Deposit Term Series	0.52 0.48	34,003,074 15,152,000	N/A AAAm
Total Pooled Investments		<u>75,827,648</u>	
OPEB Investments:			
Minnesota Trust Investment Shares	N/A	35,201	AAAm
Negotiable Certificates of Deposit	2.67	9,312,069	N/A
Local Government Obligations	2.39	4,327,559	N/A
Total OPEB Investments		<u>13,674,829</u>	
Capital Project Investments:			
Minnesota Trust Investment Shares	N/A	2,572,199	AAAm
Negotiable Certificates of Deposit	0.06	3,025,700	N/A
Term Series	0.11	2,000,000	AAAm
Total Capital Projects Investments		<u>7,597,899</u>	
Total Investments		<u>\$ 97,100,376</u>	

C. Deposits and Investments

Summary of cash, deposits and investments as of June 30, 2014:

Investments (Note 3.B.)	\$ 97,100,376
Petty Cash	<u>2,050</u>
Total Deposits and Investments	<u>\$ 97,102,426</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments (Continued)

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

Statement of Net Position:

Cash and Investments	\$ 96,742,807
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Statement of Fiduciary Net Position:

Agency Fund	217,806
Private Purpose Trust Fund	<u>141,813</u>

Total	<u><u>\$ 97,102,426</u></u>
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NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Transfers

	<u>Transfers Out:</u>
	<u>General</u>
Transfer In:	
Nonmajor Funds	<u><u>\$ 680,404</u></u>

A transfer was made from the General Fund to the other nonmajor funds for state revenue received in the General Fund but expended out of another fund.

B. Interfund Receivable/Payable

	General	Other Nonmajor	Total
Interfund Receivable:			
Internal Service Fund	\$ 1,370,145	\$ 200,331	\$ 1,570,476

An interfund receivable/payable was established to present July and August dental and health insurance premiums withheld and owed to the Internal Service Funds.

INDEPENDENT SCHOOL DISTRICT NO. 271

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

NOTE 5 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Land Improvements	\$ 2,166,126	\$ -	\$ -	\$ 2,166,126
Construction in Progress	<u>3,287,023</u>	<u>2,035,641</u>	<u>3,287,023</u>	<u>2,035,641</u>
Total Capital Assets not being Depreciated	<u>5,453,149</u>	<u>2,035,641</u>	<u>3,287,023</u>	<u>4,201,767</u>
Capital Assets being Depreciated:				
Buildings and Building Improvements	183,120,008	8,520,310	-	191,640,318
Furniture and Equipment	<u>17,969,083</u>	<u>308,972</u>	<u>295,641</u>	<u>17,982,414</u>
Total Capital Assets being Depreciated	<u>201,089,091</u>	<u>8,829,282</u>	<u>295,641</u>	<u>209,622,732</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	90,631,899	6,427,653	-	97,059,552
Furniture and Equipment	<u>11,660,174</u>	<u>1,396,975</u>	<u>114,909</u>	<u>12,942,240</u>
Total Accumulated Depreciation	<u>102,292,073</u>	<u>7,824,628</u>	<u>114,909</u>	<u>110,001,792</u>
Total Capital Assets being Depreciated, Net	<u>98,797,018</u>	<u>1,004,654</u>	<u>180,732</u>	<u>99,620,940</u>
Governmental Activities, Capital Assets, Net	<u>\$ 104,250,167</u>	<u>\$ 3,040,295</u>	<u>\$ 3,467,755</u>	<u>\$ 103,822,707</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

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

NOTE 5 – CAPITAL ASSETS

Depreciation expense for the year ended June 30, 2014 was charged to the following functions:

Administration	\$ 2,624
District Support Services	17,827
Elementary and Secondary Regular Instruction	250,075
Vocational Education Instruction	3,318
Special Education Instruction	13,006
Community Service	18,124
Instructional Support	38,370
Pupil Support	697,728
Food Service	27,230
Unallocated	<u>6,756,326</u>
 Total Depreciation Expense	 <u><u>\$ 7,824,628</u></u>

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
G.O. Bonds Including						
Refunding Bonds:						
2006A School Refunding	03/08/06	4.0%-5.0%	\$ 45,470,000	02/01/20	\$ 30,470,000	\$ 4,205,000
2006C School Refunding	12/06/06	4.00-4.25%	38,045,000	02/01/24	36,965,000	955,000
2009A OPEB Bonds	04/15/09	4.00%-5.25%	12,545,000	02/01/25	11,995,000	265,000
2013A Alternative Facilities Bonds	06/04/13	3.00%-5.00%	16,275,000	02/01/34	16,175,000	-
2013B School Refunding Bonds	06/04/13	1.50%-2.00%	11,780,000	02/01/20	<u>10,635,000</u>	<u>515,000</u>
Total G.O. Bonds					106,240,000	5,940,000
Build America Bonds	09/29/10	6.15%	600,000	05/15/22	<u>436,155</u>	<u>43,682</u>
Unamortized Bond Premieums					1,319,968	-
Other Long-Term Liabilities:						
Compensated Absences Payable					1,126,099	112,610
Severance Payable					<u>472,001</u>	<u>47,200</u>
 Total Long-Term Liabilities					 <u><u>\$ 109,594,223</u></u>	 <u><u>\$ 6,143,492</u></u>

The long-term bond liabilities listed above were issued to finance the acquisition, construction and refurbishing of capital facilities, purchase capital assets, refinance (refund) previous bond issues or to finance the District's OPEB obligation.

In 2013 the District issued \$ 11,780,000 G.O. School Building Refunding Bonds, Series 2013B to refund the 2014 through 2020 maturities of the Series 2005A Bonds on August 1, 2013. The net present value savings was \$ 1,499,680 and the refunding lowered debt service payments by \$ 1,520,238.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities (Continued)

Bonds will be retired with assets from the Debt Service Funds while the compensated absences and severance liabilities will be liquidated by the General and Internal Service Funds.

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond and loan liabilities:

Year Ending June 30,	G.O. Bonds			Build America Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 5,940,000	\$ 4,303,681	\$ 10,243,681	\$ 43,682	\$ 26,162	\$ 69,844
2016	7,710,000	4,034,331	11,744,331	46,410	23,434	69,844
2017	8,015,000	3,731,506	11,746,506	49,308	20,536	69,844
2018	8,340,000	3,408,606	11,748,606	52,387	17,457	69,844
2019	8,640,000	3,100,481	11,740,481	55,658	14,186	69,844
2020-2024	46,995,000	10,073,770	57,068,770	188,710	20,823	209,533
2025-2029	8,665,000	2,601,989	11,266,989	-	-	-
2030-2034	11,935,000	1,390,125	13,325,125	-	-	-
Total	<u>\$ 106,240,000</u>	<u>\$ 32,644,489</u>	<u>\$ 138,884,489</u>	<u>\$ 436,155</u>	<u>\$ 122,598</u>	<u>\$ 558,753</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
G.O. Bonds	\$ 125,440,000	\$ -	\$ 19,200,000	\$ 106,240,000
Unamortized Bond Premiums	1,610,060	-	290,092	1,319,968
Loans	477,270	-	41,115	436,155
Compensated Absence Payable	1,069,318	1,167,892	1,111,111	1,126,099
Severance Benefits Payable	438,177	33,824	-	472,001
Total Long-Term Liabilities	<u>\$ 129,034,825</u>	<u>\$ 1,201,716</u>	<u>\$ 20,642,318</u>	<u>\$ 109,594,223</u>

NOTE 7 – FUND BALANCES

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

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – FUND BALANCES

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

A. Restricted/Reserved Fund Equity

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. The balance as of June 30, 2014 is a deficit (negative) \$ 54,276, which is presented within unassigned fund balance for purposes of reporting in accordance with generally accepted accounting principles.

Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction. All interest income attributable to the capital projects levy must be credited to this account.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Area Learning Center – This balance represents amounts reserved for students attending area learning centers. Each district that sends students to an area learning center must reserve an amount equal to at least 90% of the district average general education revenue, minus .0485 times the formula allowance (without the basic skills, transportation sparsity or transportation transition portions) per pupil unit, times the number of pupil units attending area learning centers. The amount reserved may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Career and Technical Programs – This balance represents the balance a district must restrict from the career and technical revenue.

Restricted/Reserved for Alternative Facility Program – This restricted account represents the balance of two different programs; Alternative Facilities (1a) and Health and Safety related Alternative Facilities (1b). A District can only have revenue in one of the two programs. Alternative Facilities (1a) program balance represents the resources available for approved expenditures based on the 10 year plan for Alternative Facilities (1b) represents the restricted amounts remaining from projects over \$ 500,000 that are based on criteria of the health and safety program under *Minnesota Statutes* 123B.59, subd.1b.

Restricted for Debt Service – This balance represents the resources available for the payment of general obligation bond principal, interest and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

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.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

A. Restricted/Reserved Fund Equity (Continued)

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

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). The balance as of June 30, 2014 is a deficit (negative) \$ 62,910, which is presented within the Restricted/Reserved for Community Education Programs Fund balance for purposes of reporting in accordance with generally accepted accounting principles.

B. Committed Fund Equity

Committed for Workers Compensation – This balance represents resources committed to establish a self-insured worker's compensation plan.

Committed for Medical Assistance/Third Party – This balance represents revenues received from the state and expenditures associated with Medical Assistance.

Committed for Wellness – This balance represents resources committed for employee wellness programs.

Committed for Uniform and Instrument Replacement – This balance represents resources committed to purchase high school uniforms and future instrument replacement.

Committed for Operating Referendum – This balance represents resources committed from the operating referendum.

Committed for Transportation Bus Purchases – This balance represents resources committed for future bus purchases.

Committed for Transportation Building – This balance represents resources committed for future Transportation Center Building maintenance to improve the heating and ventilation systems.

Committed for Transportation – This balance represents the accumulation of the activity to provide the district transportation.

Committed/Designated for Severance Insurance – This balance represents resources segregated from the unreserved/undesignated fund balance for retirement benefits, including compensated absences, pensions, OPEB and termination benefits (as defined in GASB Statement Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

INDEPENDENT SCHOOL DISTRICT NO. 271

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

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

B. Committed Fund Equity (Continued)

Committed for Technology Replacement – This balance represents resources committed to future technology replacement purchases.

Committed for Energy Savings – This balance represents resources committed for lighting upgrades District-wide.

Committed for Security Systems – This balance represents resources committed for the installation of security cameras and systems.

Committed for Athletics and Activities – This balance represents unspent athletic and activities dollars to differentiate between athletics and activities and K-12 operating funding.

Committed for Q Comp – This balance represents resources committed for the Quality Compensation Program.

Committed for All Day Kindergarten – This balance represents resources committed for All Day Kindergarten.

Committed for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue.

C. Government-Wide Restrictions

Net position restricted for “Other Purposes” are comprised of the total General Fund restricted fund balances, the Food Service Fund and Community Service Fund balances.

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. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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 below and on the following page.

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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. 271

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 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.

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 \$ 4,295,828, \$ 3,886,591 and \$ 3,398,837, respectively, equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Funding Policy (Continued)

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 Public Employees' Retirement Association of Minnesota (PERA). PERA administers 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.

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 Coordinated Plan members 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated 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.

INDEPENDENT SCHOOL DISTRICT NO. 271

**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)

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 GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, Suite #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. GERF 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 \$ 1,806,296, \$ 1,782,321 and \$ 1,683,809, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides single-employer or defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Corporate Health. 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.

B. Funding Policy

Retirees contribute to the healthcare 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 Corporate Health. Resolution assigned the authority to establish and amend benefit provisions to the School Board. Some employee groups also receive a direct payment from the District toward insurance after retirement. Also, by definition some severance benefits provided by the District are included in the OPEB liability calculation. The required contributions are based on projected pay-as-you-go financing requirements. For 2014, the District contributed \$ 881,825 to the plan. As of June 30, 2014, the District decided to pay retiree benefits on a pay-as-you-go basis rather than draw from the OPEB Plan. Administrative costs of the plan are financed through investment earnings. As of July 1, 2012, the most recent actuarial valuation date, there were approximately 59 retirees receiving health benefits from the District’s health plan. The plan has a total of 1,875 active participants and dependents. Of that total, 1,816 are not yet eligible to receive benefits.

INDEPENDENT SCHOOL DISTRICT NO. 271

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 following table 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	\$ 1,293,733
Interest on Net OPEB Obligation	65,194
Adjustment to ARC	(94,255)
Annual OPEB Cost (Expense)	<u>1,264,672</u>
Contributions Made	(881,825)
Increase in Net OPEB Obligation	<u>382,847</u>
Net OPEB Obligation - Beginning of Year	1,629,862
Net OPEB Obligation - End of Year	<u><u>\$ 2,012,709</u></u>

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 1,264,672	\$ 881,825	69.7%	\$ 2,012,709
6/30/2013	1,261,848	937,524	74.3%	1,629,862
6/30/2012	1,750,240	1,259,607	72.0%	1,305,538

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 \$ 10,095,492 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 10,095,492. The covered payroll (annual payroll of active employees covered by the plan) was \$ 82,247,255 and the ratio of the UAAL to the covered payroll was 12.3%.

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. 271

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.

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.

On July 1, 2012, the actuarial valuation date, the projected unit credit with 30-year amortization of the unfunded liability method was used. The actuarial assumptions included a 4% discount rate. At the time of the actuarial study, the District was not planning on prefunding for this benefit. At this actuarial valuation date, the annual healthcare cost trend rate was calculated to be 8.5% initially, reduced incrementally to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2014 was 29 years.

On April 15, 2009, the District issued \$ 12,545,000 G.O. Taxable OPEB Bonds, Series 2009A to fund 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 OPEB Internal Service Fund. As of June 30, 2014, the ending market value of these assets was \$ 13,788,742.

NOTE 10 – CONTINGENCIES

A. Lawsuits

There are several lawsuits pending in which the District is involved. The District estimates the potential claims against the District, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the District.

B. Program Compliance

Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditures are disallowed or other compliance features are not met, a liability to the respective grantor agencies could result.

C. Other

The District withdrew its membership from Intermediate District No. 287. The terms of the withdrawal are still being negotiated at the time these financial statements were issued.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to address these risks. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from the past year.

On July 1, 1993, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of \$ 1,200 for each dental care claim. The General, Food Service, Community Service and Agency Funds of the District participate in the program and make payments to the Dental Insurance Internal Service 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.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Dental Insurance Internal Service Fund includes a reserve of \$ 1,063,497 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2014 is \$ 22,500 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2011-2012	\$ 23,000	\$ 852,933	\$ (859,933)	\$ 16,000
2012-2013	16,000	958,024	(954,524)	19,500
2013-2014	19,500	1,039,511	(1,036,511)	22,500

During 2010, the District began to self-insure for health benefits. A stop-loss policy was purchased that limits the District's loss to \$ 200,000 at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 125% of the prior year's claims. Settled claims have not exceeded this commercial coverage in any of the past three years.

The General, Food Service, Community Service and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service 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. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2014 is \$ 1,378,835 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

INDEPENDENT SCHOOL DISTRICT NO. 271

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 11 – RISK MANAGEMENT

Changes in the Fund’s claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2011-2012	\$ 1,015,803	\$ 14,178,113	\$ (13,889,889)	\$ 1,304,027
2012-2013	1,304,027	14,039,260	(13,964,452)	1,378,835
2013-2014	1,378,835	15,443,100	(15,443,100)	1,378,835

NOTE 12 – COMMITMENTS

At June 30, 2014, the District had various construction contract commitments for projects outstanding totaling \$ 7,904,116.

The District approved a new operating lease with Hub Properties Trust to lease part of a building. The terms of the lease include a start date of September 1, 2014 going through December 31, 2024.

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.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 271

**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) - (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>
7/1/2012	\$ -	\$ 10,095,492	\$ 10,095,492	0.0%	\$ 82,247,255	12.3%
7/1/2010	-	14,671,699	14,671,699	0.0%	63,975,688	22.9%
7/1/2008	-	11,871,111	11,871,111	0.0%	77,270,563	15.4%

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 271

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

	Special Revenue Funds		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments	\$ 1,509,987	\$ 2,969,779	\$ 4,479,766
Current Property Taxes Receivable	-	785,826	785,826
Delinquent Property Taxes Receivable	-	6,957	6,957
Accounts Receivable	18,805	92,749	111,554
Due from Department of Education	-	257,585	257,585
Due from Other Minnesota School Districts	-	691,322	691,322
Due from Federal Government through Department of Education	114,479	79,611	194,090
Inventory	110,102	-	110,102
Prepaid Items	1,682	1,288	2,970
	<u>\$ 1,755,055</u>	<u>\$ 4,885,117</u>	<u>\$ 6,640,172</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 15,150	\$ 19,947	\$ 35,097
Salaries and Benefits Payable	289,794	793,598	1,083,392
Due to Other Minnesota Districts	-	29,443	29,443
Due to Other Governmental Units	-	380	380
Interfund Payable	95,583	104,748	200,331
Unearned Revenue	108,955	172,115	281,070
Total Liabilities	<u>509,482</u>	<u>1,120,231</u>	<u>1,629,713</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year's Expenditures	-	1,599,560	1,599,560
Unavailable Revenue - Delinquent Property Taxes	-	10,123	10,123
Total Deferred Inflows of Resources	<u>-</u>	<u>1,609,683</u>	<u>1,609,683</u>
Fund Balances			
Nonspendable:			
Inventory	110,102	-	110,102
Prepaid Items	1,682	1,288	2,970
Restricted:			
Community Education Programs	-	1,703,438	1,703,438
Adult Basic Education	-	407,497	407,497
Early Childhood Family and Education Programs	-	42,980	42,980
Fund Purpose	1,133,789	-	1,133,789
Total Fund Balances	<u>1,245,573</u>	<u>2,155,203</u>	<u>3,400,776</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,755,055</u>	<u>\$ 4,885,117</u>	<u>\$ 6,640,172</u>

OPEB Debt Service	Total Nonmajor Funds
\$ 614,357	\$ 5,094,123
457,203	1,243,029
5,508	12,465
-	111,554
-	257,585
-	691,322
-	194,090
-	110,102
-	2,970
<u>\$ 1,077,068</u>	<u>\$ 7,717,240</u>

\$ -	\$ 35,097
-	1,083,392
-	29,443
-	380
-	200,331
-	281,070
<u>-</u>	<u>1,629,713</u>

930,684	2,530,244
6,877	17,000
<u>937,561</u>	<u>2,547,244</u>

-	110,102
-	2,970
-	1,703,438
-	407,497
-	42,980
139,507	1,273,296
<u>139,507</u>	<u>3,540,283</u>
<u>\$ 1,077,068</u>	<u>\$ 7,717,240</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

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

	Special Revenue Funds		
	Food Service	Community Service	Total
REVENUES			
Local Property Taxes	\$ -	\$ 1,040,744	\$ 1,040,744
Other Local and County Revenues	26,051	6,417,278	6,443,329
Revenue from State Sources	217,220	3,413,250	3,630,470
Revenue from Federal Sources	2,638,325	359,577	2,997,902
Sales and Other Conversion of Assets	1,982,319	-	1,982,319
Interdistrict Revenue	-	701,231	701,231
Total Revenues	<u>4,863,915</u>	<u>11,932,080</u>	<u>16,795,995</u>
EXPENDITURES			
Current			
Elementary and Secondary Regular Instruction	-	175,000	175,000
Food Service	5,502,188	-	5,502,188
Community Education and Services	-	13,503,996	13,503,996
Capital Outlay			
Food Service	21,384	-	21,384
Community Education and Services	-	19,422	19,422
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>5,523,572</u>	<u>13,698,418</u>	<u>19,221,990</u>
Excess of Revenues Over (Under) Expenditures	(659,657)	(1,766,338)	(2,425,995)
OTHER FINANCING SOURCE			
Transfers In	-	680,404	680,404
Net Change in Fund Balances	(659,657)	(1,085,934)	(1,745,591)
FUND BALANCES			
Beginning of Year	<u>1,905,230</u>	<u>3,241,137</u>	<u>5,146,367</u>
End of Year	<u>\$ 1,245,573</u>	<u>\$ 2,155,203</u>	<u>\$ 3,400,776</u>

<u>OPEB Debt Service</u>	<u>Total Nonmajor Funds</u>
\$ 964,637	\$ 2,005,381
534	6,443,863
-	3,630,470
-	2,997,902
-	1,982,319
-	701,231
965,171	17,761,166
-	175,000
-	5,502,188
-	13,503,996
-	21,384
-	19,422
285,000	285,000
624,556	624,556
909,556	20,131,546
55,615	(2,370,380)
-	680,404
55,615	(1,689,976)
83,892	5,230,259
\$ 139,507	\$ 3,540,283

INDEPENDENT SCHOOL DISTRICT NO. 271

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Other Local and County Revenues	\$ 20,000	\$ 20,000	\$ 26,051	\$ 6,051
Revenue from State Sources	259,831	259,831	217,220	(42,611)
Revenue from Federal Sources	2,680,852	2,680,852	2,638,325	(42,527)
Sales and Other Conversion of Assets	2,110,391	2,110,391	1,982,319	(128,072)
Total Revenues	5,071,074	5,071,074	4,863,915	(207,159)
EXPENDITURES				
Current				
Food Service	5,078,571	5,478,571	5,502,188	23,617
Capital Outlay				
Food Service	-	-	21,384	21,384
Total Expenditures	5,078,571	5,478,571	5,523,572	45,001
Excess of Revenues Under Expenditures	\$ (7,497)	\$ (407,497)	(659,657)	\$ (252,160)
FUND BALANCE				
Beginning of Year			1,905,230	
End of Year			\$ 1,245,573	

INDEPENDENT SCHOOL DISTRICT NO. 271

**SCHEDULE 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	\$ 1,838,143	\$ 1,838,143	\$ 1,040,744	\$ (797,399)
Other Local and County Revenues	6,446,235	6,446,235	6,417,278	(28,957)
Revenue from State Sources	2,575,691	2,575,691	3,413,250	837,559
Revenue from Federal Sources	355,713	355,713	359,577	3,864
Interdistrict Revenue	703,900	703,900	701,231	(2,669)
Total Revenues	<u>11,919,682</u>	<u>11,919,682</u>	<u>11,932,080</u>	<u>12,398</u>
EXPENDITURES				
Current				
Elementary and Secondary Regular Instruction	-	-	175,000	175,000
Community Education and Services	13,466,274	13,466,274	13,503,996	37,722
Capital Outlay				
Community Education and Services	29,450	29,450	19,422	(10,028)
Total Expenditures	<u>13,495,724</u>	<u>13,495,724</u>	<u>13,698,418</u>	<u>202,694</u>
Excess of Revenues Under Expenditures	(1,576,042)	(1,576,042)	(1,766,338)	(190,296)
OTHER FINANCING SOURCES				
Transfers In	<u>1,311,801</u>	<u>1,311,801</u>	<u>680,404</u>	<u>(631,397)</u>
Net Change in Fund Balance	<u>\$ (264,241)</u>	<u>\$ (264,241)</u>	<u>(1,085,934)</u>	<u>\$ (821,693)</u>
FUND BALANCE				
Beginning of Year			<u>3,241,137</u>	
End of Year			<u>\$ 2,155,203</u>	

INDEPENDENT SCHOOL DISTRICT NO. 271

**COMBINING STATEMENT OF
NET POSITION - INTERNAL SERVICE FUNDS
June 30, 2014**

	Internal Service Funds				Total
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	
ASSETS					
Cash and Cash Equivalents	\$ 8,092,368	\$ 1,245,668	\$ 5,572,323	\$ 35,201	\$ 14,945,560
Investments	-	-	-	13,639,628	13,639,628
Interfund Receivable	-	88,543	1,481,933	-	1,570,476
Interest Receivable	-	-	-	113,913	113,913
Total Assets	<u>\$ 8,092,368</u>	<u>\$ 1,334,211</u>	<u>\$ 7,054,256</u>	<u>\$ 13,788,742</u>	<u>\$ 30,269,577</u>
LIABILITIES AND NET POSITION					
Liabilities					
Accounts Payable	\$ -	\$ -	\$ 305	\$ -	\$ 305
Incurred but not Reported Claims	-	22,500	1,378,835	-	1,401,335
Benefits Payable	1,126,099	-	-	-	1,126,099
Unearned Revenue	-	248,214	4,112,288	-	4,360,502
Total Liabilities	<u>1,126,099</u>	<u>270,714</u>	<u>5,491,428</u>	<u>-</u>	<u>6,888,241</u>
Net Position					
Unrestricted	<u>6,966,269</u>	<u>1,063,497</u>	<u>1,562,828</u>	<u>13,788,742</u>	<u>23,381,336</u>
Total Liabilities and Net Position	<u>\$ 8,092,368</u>	<u>\$ 1,334,211</u>	<u>\$ 7,054,256</u>	<u>\$ 13,788,742</u>	<u>\$ 30,269,577</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2014**

	Internal Service Funds				Total
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	
OPERATING REVENUES					
Charges for Services	\$ -	\$ 1,209,022	\$ 17,501,408	\$ -	\$ 18,710,430
Contribution	669,036	-	-	-	669,036
Total Revenue	<u>669,036</u>	<u>1,209,022</u>	<u>17,501,408</u>	<u>-</u>	<u>19,379,466</u>
OPERATING EXPENSES					
Salaries and Benefits	-	33,000	-	-	33,000
Employee Benefits	671,532	1,039,511	15,443,100	37,488	17,191,631
Administrative	-	79,986	1,652,570	400	1,732,956
Total Operating Expenses	<u>671,532</u>	<u>1,152,497</u>	<u>17,095,670</u>	<u>37,888</u>	<u>18,957,587</u>
Operating Income (Loss)	(2,496)	56,525	405,738	(37,888)	421,879
NONOPERATING REVENUES					
Investment Income	<u>11,260</u>	<u>289</u>	<u>6,943</u>	<u>197,871</u>	<u>216,363</u>
Change in Net Position	8,764	56,814	412,681	159,983	638,242
NET POSITION					
Beginning of Year	<u>6,957,505</u>	<u>1,006,683</u>	<u>1,150,147</u>	<u>13,628,759</u>	<u>22,743,094</u>
End of Year	<u>\$ 6,966,269</u>	<u>\$ 1,063,497</u>	<u>\$ 1,562,828</u>	<u>\$ 13,788,742</u>	<u>\$ 23,381,336</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

COMBINING STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2014

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
CASH FLOWS - OPERATING ACTIVITIES					
Receipts from Employee Contributions	\$ -	\$ 1,217,120	\$ 17,690,975	\$ -	\$ 18,908,095
Receipts from District Contributions	725,817	-	-	-	725,817
Employee Claims Paid	(671,532)	(1,036,511)	(15,443,100)	(37,488)	(17,188,631)
Payments to Employees	-	(33,000)	-	-	(33,000)
Payments to Suppliers	-	(80,986)	(1,657,515)	(400)	(1,738,901)
Net Cash Flows - Operating Activities	54,285	66,623	590,360	(37,888)	673,380
CASH FLOWS - INVESTMENT ACTIVITIES					
Investment Purchases	-	-	-	(938,170)	(938,170)
Interest Received	11,260	289	6,943	198,243	216,735
Net Cash Flows - Investment Activities	11,260	289	6,943	(739,927)	(721,435)
Net Change in Cash and Cash Equivalents	65,545	66,912	597,303	(777,815)	(48,055)
CASH AND CASH EQUIVALENTS					
Beginning of Year	8,026,823	1,178,756	4,975,020	813,016	14,993,615
End of Year	\$ 8,092,368	\$ 1,245,668	\$ 5,572,323	\$ 35,201	\$ 14,945,560
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (2,496)	\$ 56,525	\$ 405,738	\$ (37,888)	\$ 421,879
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:					
Accounts Payable	-	(1,000)	(4,945)	-	(5,945)
Benefits Payable	56,781	-	-	-	56,781
Incurred but not Reported Dental Claims	-	3,000	-	-	3,000
Accounts Receivable	-	-	18	-	18
Interfund Receivable	-	(6,821)	(162,643)	-	(169,464)
Unearned Revenue	-	14,919	352,067	-	366,986
Prepays	-	-	125	-	125
Net Adjustments	56,781	10,098	184,622	-	251,501
Net Cash Flows - Operating Activities	\$ 54,285	\$ 66,623	\$ 590,360	\$ (37,888)	\$ 673,380

INDEPENDENT SCHOOL DISTRICT NO. 271
STATEMENT OF CHANGES IN AGENCY FUND
ASSETS AND LIABILITIES
For the Year Ended June 30, 2014

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2014</u>
ASSETS				
Cash and Investments	<u>\$ 220,528</u>	<u>\$ 435,656</u>	<u>\$ (438,378)</u>	<u>\$ 217,806</u>
LIABILITIES				
Accounts Payable	\$ 107,076	\$ 161,128	\$ (174,371)	\$ 93,833
Salaries and Benefits Payable	696	79,663	(79,034)	1,325
Other Liabilities	<u>112,756</u>	<u>140,611</u>	<u>(130,719)</u>	<u>122,648</u>
Total Liabilities	<u>\$ 220,528</u>	<u>\$ 381,402</u>	<u>\$ (384,124)</u>	<u>\$ 217,806</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

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	\$ 126,102,033	\$ 126,102,034	\$ (1)	Total Revenue	\$ 7,278,149	\$ 7,278,149	\$ -
Total Expenditures	125,202,817	125,202,817	-	Total Expenditures	13,962,077	13,962,078	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	571,307	571,306	1	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	7,113,198	7,113,198	-
406 Health and Safety	(54,276)	(54,276)	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	1,439,727	1,439,727	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	5,432,289	5,432,289	-	Total Revenue	\$ 10,809,325	\$ 10,809,324	\$ 1
426 \$ 25 Taconite	-	-	-	Total Expenditures	22,924,218	22,924,217	1
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	418,353	418,353	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	1,443,318	1,443,318	-
445 Career Technical Programs	8,000	8,000	-	<i>Unassigned:</i>			
448 Achievement and Integration Revenue	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Transition to Pre-Kindergarten	-	-	-	08 TRUST FUND			
451 QZAB and QSCB Payments	-	-	-	Total Revenue	\$ 29	\$ 28	\$ 1
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	9,250	9,250	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance (Net Position)	141,813	141,813	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	2,193,875	2,193,875	-	Total Revenue	\$ 19,397,958	\$ 19,397,959	\$ (1)
461 Committed	18,000,267	18,000,267	-	Total Expenditures	18,919,699	18,919,699	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	-	-	-	422 Unassigned Fund Balance (Net Position)	9,592,594	9,592,595	(1)
<i>Unassigned:</i>							
422 Unassigned Fund Balance	5,528,597	5,528,598	(1)	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ 197,871	\$ 197,871	\$ -
02 FOOD SERVICES FUND				Total Expenditures	37,888	37,888	-
Total Revenue	\$ 4,863,915	\$ 4,863,917	\$ (2)	<i>Unassigned:</i>			
Total Expenditures	5,523,572	5,523,571	1	422 Unassigned Fund Balance (Net Position)	13,788,742	13,788,742	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	111,784	111,784	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	1,133,789	1,133,789	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	\$ 965,171	\$ 965,171	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	909,556	909,556	-
Total Revenue	\$ 11,932,080	\$ 11,932,079	\$ 1	<i>Nonspendable:</i>			
Total Expenditures	13,698,418	13,698,418	-	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	1,288	1,288	-	425 Bond Refundings	-	-	-
<i>Restricted/Reserved:</i>				464 Restricted Fund Balance	139,507	139,507	-
426 \$ 25 Taconite	-	-	-	<i>Unassigned:</i>			
431 Community Education	1,766,348	1,766,348	-	463 Unassigned Fund Balance	-	-	-
432 ECFE	42,980	42,980	-				
444 School Readiness	(62,910)	(62,910)	-				
447 Adult Basic Education	407,497	407,497	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 271

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

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs (Noncash Assistance)	10.555	\$ 261,128
School Breakfast	10.553	513,044
Summer Food Service	10.559	67,853
Type A Lunch	10.555	1,762,835
After School Snack	10.555	<u>33,465</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		2,638,325
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	1,529,493
Title II, Part A - Improving Teacher Quality	84.367	115,078
Title III, Part A Cluster:		
Title III, Part A - Language Enhancement	84.365	143,978
Title III, Part A - Immigrant Grant	84.365	<u>16,389</u>
Total Title III, Part A Cluster		160,367
Special Education Cluster:		
Special Education	84.027	2,463,395
IDEA Part B Section 211 Coordinated Early Intervening Services	84.027	65,353
Handicapped Early Education	84.173	102,666
IDEA, Part B, Discretionary Parent Resources	84.027A	<u>11,521</u>
Total Special Education Cluster		2,642,935
Infants and Toddlers	84.181	48,649
Adult Basic Education Cluster:		
Adult Basic Education	84.002	148,380
Adult Basic Education Literacy	84.002A	<u>36,196</u>
Total Adult Basic Education Cluster		184,576
Through Independent School District 273:		
Carl Perkins	84.048A	46,453
Direct from Federal Government:		
Indian Elementary and Secondary School Assistance	84.060	<u>24,425</u>
Total U.S. Department of Education		<u>4,751,976</u>
Total Federal Expenditures		<u>\$ 7,390,301</u>

INDEPENDENT SCHOOL DISTRICT NO. 271

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. Other inventories are stated at cost as determined on a FIFO basis.



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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. 271
Bloomington, 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. 271, Bloomington, 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 November 19, 2014.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
November 19, 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. 271
Bloomington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 271, Bloomington, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 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. 271.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 271, Bloomington, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 would not necessarily 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 a material weakness. 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
November 19, 2014

INDEPENDENT SCHOOL DISTRICT NO. 271

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

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 *Circular A-133*? No

Identification of Major Programs

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

CFDA No.: 10.553, 10.555 and 10.559
Name of Federal Program or Cluster: Child Nutrition Cluster

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

Auditee qualified as low risk auditee? No

INDEPENDENT SCHOOL DISTRICT NO. 271
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no material weaknesses or significant deficiencies noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs noted.



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, 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 November 19, 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.

A handwritten signature in cursive script that reads "Kern DeWenter, Viero Ltd".

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
November 19, 2014