

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2014

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BEMIDJI, MINNESOTA
JUNE 30, 2014

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INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
YEAR ENDED JUNE 30, 2014

OFFICIAL DIRECTORY
(Unaudited)

<u>School Board Members and Officers</u>	<u>July 1, 2013 to December 31, 2013</u>	<u>January 1, 2014 to June 30, 2014</u>
Chairperson	John Pugleasa	Carol L. Johnson
Vice-Chairperson	Carol L. Johnson	Melissa Bahr
Clerk	Melissa Bahr	Richard (Bill) Faver
Treasurer	Richard (Bill) Faver	Jeff Haack
Director	Ann Long Voelkner	Ann Long Voelkner
Director	Jeff Haack	John Pugleasa
<u>Administration</u>		
Superintendent	Dr. James Hess Ed.D.	Dr. James Hess Ed.D.
Business Manager	Chris Leinen, J.D.	Chris Leinen, J.D.



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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent School District No. 31
Bemidji, Minnesota

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in the fiscal year ended June 30, 2014, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respected to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedule of funding progress for post-employment benefit plans on pages 5 through 17 and 47 through 49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 31 - Bemidji, Minnesota's basic financial statements. The official directory, nonmajor fund financial statements, agency fiduciary fund financial statements, fiscal compliance report and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The nonmajor and agency fiduciary fund financial statements, fiscal compliance report, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor and agency fiduciary fund financial statements, fiscal compliance report, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Independent School District No. 31
Bemidji, Minnesota

The official directory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of Independent School District No. 31 - Bemidji, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 31 - Bemidji, Minnesota's internal control over financial reporting and compliance.

Miller McDonald, Inc.

December 22, 2014
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

This section of Independent School District No. 31 – Bemidji, Minnesota's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2014 include the following:

- Net position decreased by 0.48% from the prior year.
- District-wide revenues were \$64,762,618 and district-wide expenses were \$65,006,718.
- Total enrollment increased by 26.59 students from 5,763.22 to 5,789.81 weighted ADM students.
- General fund balances decreased by \$2,108,075.
- The District purchased six new buses in the amount of \$585,679.
- The District made payments of \$2,925,000 on its outstanding general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

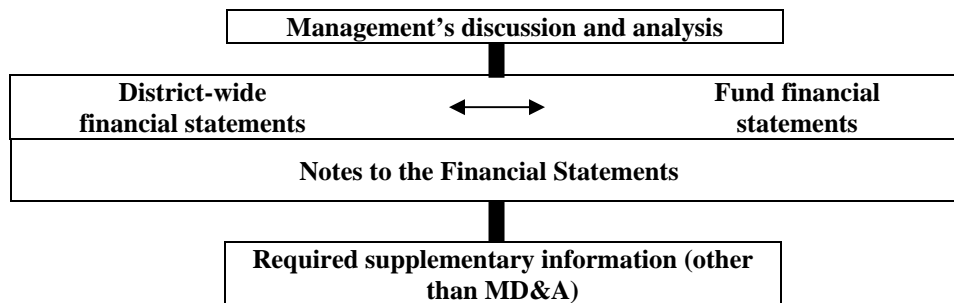
The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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



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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

District-wide Statements

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

The district-wide statements report the District's net position and how it changed. Net position – the difference between the District's assets 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 is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

The District has two types of funds:

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

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

Net Position

The District's combined net position was \$50,194,093 at June 30, 2014 (see the following table). At June 30, 2013 the net position was \$50,438,193 with a decrease of \$244,100 from operating activities for the year ended June 30, 2014.

	2014	2013	Net Changes	
			Amount	Percent
Current and other assets	\$ 27,460,987	\$ 27,795,621	\$ (334,634)	-1.20%
Capital assets, net of depreciation	61,120,622	62,137,899	(1,017,277)	-1.64%
Total assets	88,581,609	89,933,520	(1,351,911)	-1.50%
Current payables	7,585,405	6,761,373	824,032	12.19%
Long-term liabilities:				
Due within one year	3,658,266	3,489,311	168,955	4.84%
Due after one year	18,944,576	22,502,257	(3,557,681)	-15.81%
Total liabilities	30,188,247	32,752,941	(2,564,694)	-7.83%
Deferred Inflows of Resources	8,199,269	6,742,386	1,456,883	21.61%
Net position:				
Investment in capital assets	45,600,660	43,911,774	1,688,886	3.85%
Restricted	5,628,521	4,700,850	927,671	19.73%
Unrestricted	(1,035,088)	1,825,569	(2,860,657)	-156.70%
Total net position	\$ 50,194,093	\$ 50,438,193	\$ (244,100)	-0.48%

Net position decreased by 0.48% for the year ended June 30, 2014 primarily due to expenditures exceeding revenues in the District's operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

Change in Net Position

The decrease in net position occurs as a result of the District's expenditures being more than its revenues for the year ended June 30, 2014. A summary of the District's revenues and expenses, along with the amount of change and percentages from the year ended June 30, 2013 for each category are as follows:

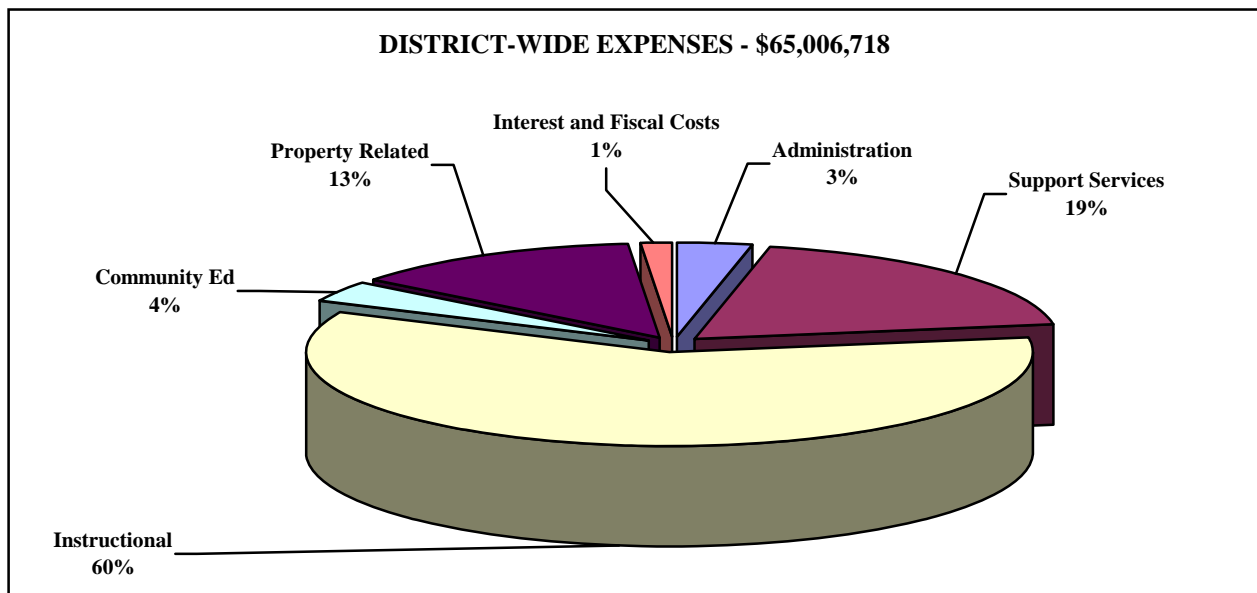
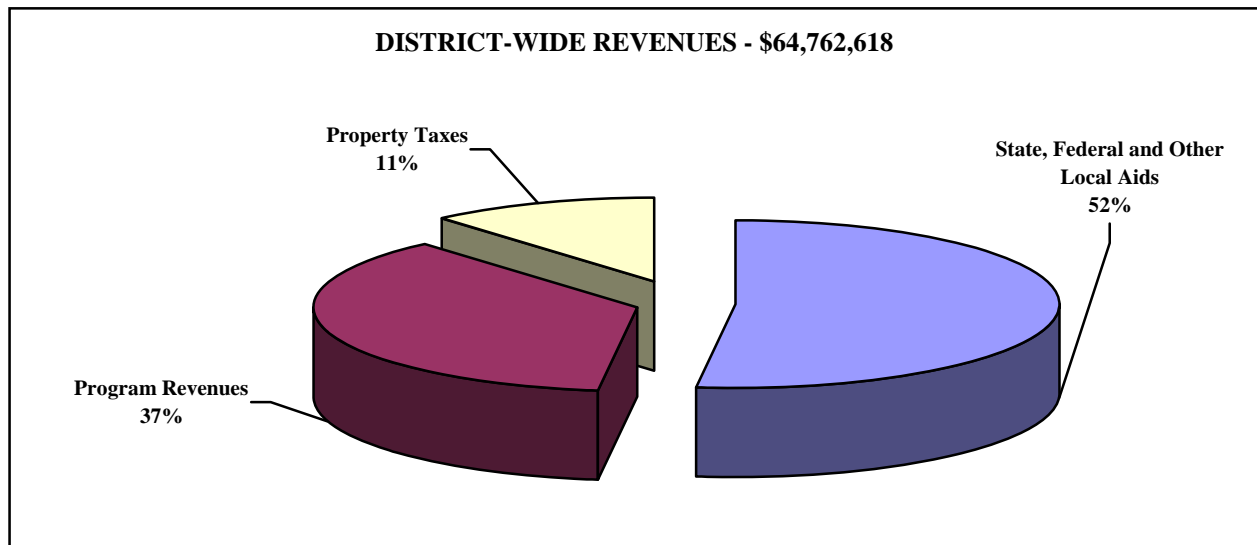
	2014		2013		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<u>Revenues:</u>						
Program Revenues:						
Charges for Services	\$ 2,846,060	4.39%	\$ 3,020,370	4.75%	\$ (174,310)	-5.77%
Operating Grants and Contributions	20,845,004	32.19%	20,353,979	32.00%	491,025	2.41%
Total Program Revenues	23,691,064	36.58%	23,374,349	36.75%	316,715	1.35%
General Revenues:						
Property Taxes	7,402,634	11.43%	9,354,191	14.71%	(1,951,557)	-20.86%
Aids and Payments from State and Federal Sources	33,500,157	51.73%	30,696,111	48.27%	2,804,046	9.13%
Other Sources	168,763	0.26%	172,311	0.27%	(3,548)	-2.06%
Total General Revenues	41,071,554	63.42%	40,222,613	63.25%	848,941	2.11%
Total Revenues	64,762,618	100.00%	63,596,962	100.00%	1,165,656	1.83%
<u>Expenses:</u>						
Instructional:						
Regular Instruction	25,574,949	39.34%	24,769,118	40.01%	805,831	3.25%
Vocational Instruction	336,746	0.52%	357,184	0.58%	(20,438)	-5.72%
Special Education Instruction	12,707,620	19.55%	11,858,143	19.16%	849,477	7.16%
Total Instructional	38,619,315	59.41%	36,984,445	59.74%	1,634,870	4.42%
Support Services:						
District Support Services	1,423,584	2.19%	1,315,623	2.13%	107,961	8.21%
Instructional Support Services	2,073,411	3.19%	1,552,576	2.51%	520,835	33.55%
Pupil Support Services	9,002,670	13.85%	8,501,209	13.73%	501,461	5.90%
Total Support Services	12,499,665	19.23%	11,369,408	18.37%	1,130,257	9.94%
Administration	2,142,583	3.30%	2,059,405	3.33%	83,178	4.04%
Community Education and Services	2,298,116	3.54%	2,057,870	3.32%	240,246	11.67%
Site, Buildings and Equipment	8,475,355	13.02%	8,034,113	12.98%	441,242	5.49%
Fiscal and Other Fixed Costs	240,762	0.37%	270,171	0.44%	(29,409)	-10.89%
Interest on Long-Term Debt	694,422	1.07%	1,126,846	1.82%	(432,424)	-38.37%
Unallocated Depreciation	36,500	0.06%	-	-	36,500	NA
Total Expenses	65,006,718	100.00%	61,902,258	100.00%	3,104,460	5.02%
Changes in Net Position	\$ (244,100)		\$ 1,694,704		\$ (1,938,804)	

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

For the year ended June 30, 2014, the District's total revenues were \$64,762,618 and consisted of program revenues of \$23,691,064, property taxes of \$7,402,634, general aids and payments from state and federal sources of \$33,500,157, and other sources of \$168,763. Expenses totaling \$65,006,718 consisted of regular, vocational and special education instruction costs of \$38,619,315; district, instructional and pupil support services of \$12,499,665; site, buildings and equipment related costs of \$8,475,355 community education and services costs of \$2,298,116; administrative costs of \$2,142,583; interest on long-term debt of \$694,422, and other costs of \$277,262.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2014:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2014 and 2013 are as follows:

	<u>Cost of Services - 2014</u>		<u>Cost of Services - 2013</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
District and School Administration	\$ 2,142,583	\$ 1,738,116	\$ 2,059,405	\$ 1,665,621
District Support Services	1,423,584	1,423,584	1,315,623	1,315,623
Regular Instruction	25,574,949	17,510,867	24,769,118	16,904,727
Vocational Instruction	336,746	301,037	357,184	357,184
Special Education Instruction	12,707,620	5,094,071	11,858,143	4,239,609
Community Education and Services	2,298,116	159,105	2,057,870	(68,029)
Instructional Support Services	2,073,411	1,140,792	1,552,576	368,468
Pupil Support Services	9,002,670	5,024,819	8,501,209	4,860,651
Site, Buildings and Equipment	8,475,355	7,951,579	8,034,113	7,487,038
Fiscal and Other Fixed Costs	240,762	240,762	270,171	270,171
Interest on Long-Term Debt	694,422	694,422	1,126,846	1,126,846
Unallocated Depreciation	36,500	36,500	-	-
Total Expenses	<u>\$ 65,006,718</u>	<u>\$ 41,315,654</u>	<u>\$ 61,902,258</u>	<u>\$ 38,527,909</u>

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

Fund Balances

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$9,271,198.

Total fund balances decreased in the amount of \$1,751,376 from the end of the prior year. Expenditures exceeded revenues in the general fund by \$2,108,075. Revenues exceeded expenditures in the debt redemption fund, the food service fund, the community service fund, and the OPEB debt service fund by \$264,147, \$22,961, \$43,317, and \$26,274, respectively.

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

The highest level is for "Restricted Funds". These are funds whose purpose is determined by Minnesota Statute. Examples include Staff Development, Deferred Maintenance, Operating Capital, Alternative Programs, Gifted and Talented, Basic Skills, and Safe Schools. At June 30, 2014, our restricted general fund balance is \$3,482,020, which is an increase of \$546,998 from the prior year.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

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

GASB No. 45 deals mainly with other post-employment retiree health insurance and has been partially funded through a bond issue that was deposited into a Post-Employment Benefits Irrevocable Trust, the current balance of which is \$4,271,792. As of July, 2013, the other post-employment health benefit liability as estimated by our actuaries, Hildi Inc., is \$9,582,643.

The "Non-spendable" fund balance in the general fund is \$918,931 and is made up of pre-bought inventory in the warehouse and prepaid health insurance expenditures.

The general fund has no "Assigned" fund balance for the year ended June 30, 2014.

Our fund balance policy requires that we have at least 10% of our general fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$3,939,113 (including adding back a negative fund balance restricted for health & safety of \$1,324,275) represents 8.1% of our 2014 general fund expenditures, excluding expenditures for restricted revenue sources, of \$48,447,033 will trigger the actions described above.

New revenue that is already in place from legislative action such as All Day Kindergarten will positively affect the School District in fiscal year 2015. While new revenue from legislative action providing for local option revenue and board approved referendum revenue will positively affect the School District in fiscal year 2016.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

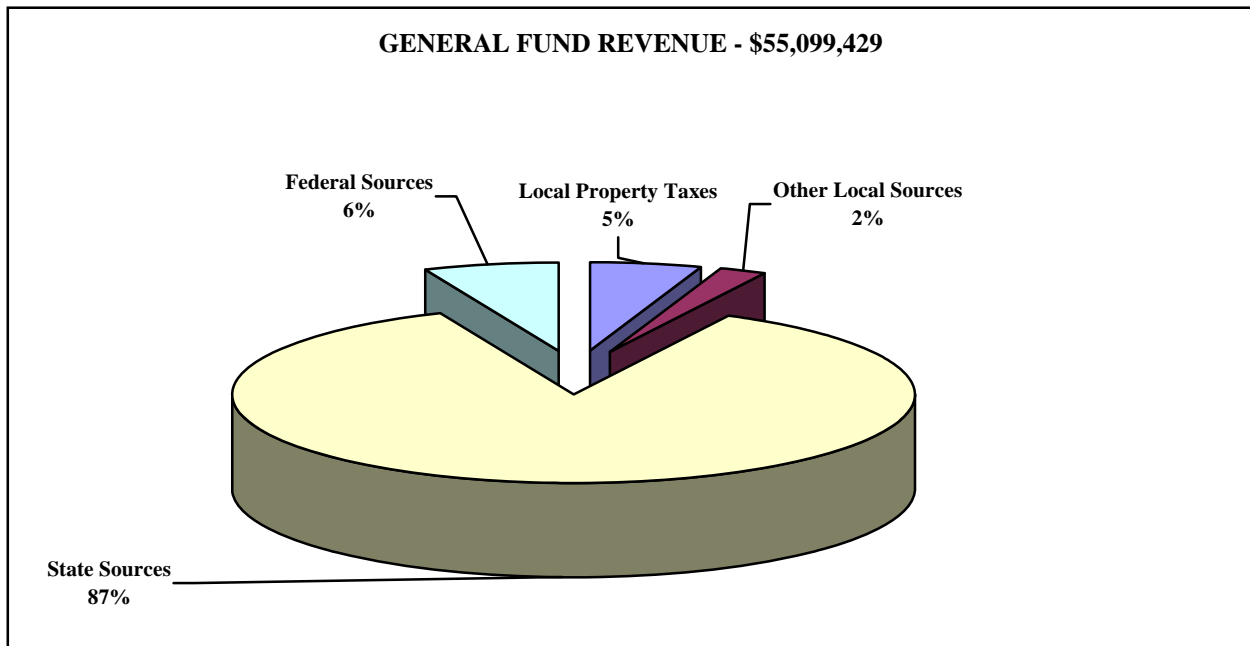
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$64,778,029 while total expenditures were \$66,529,405. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

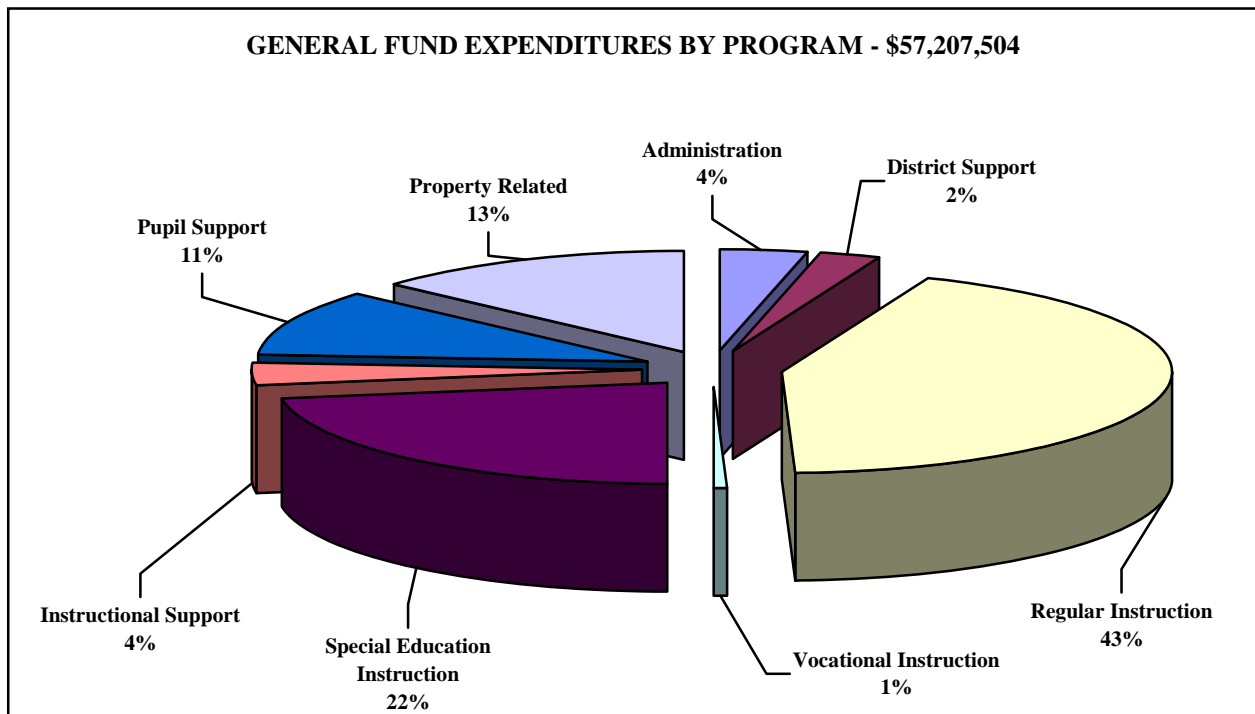
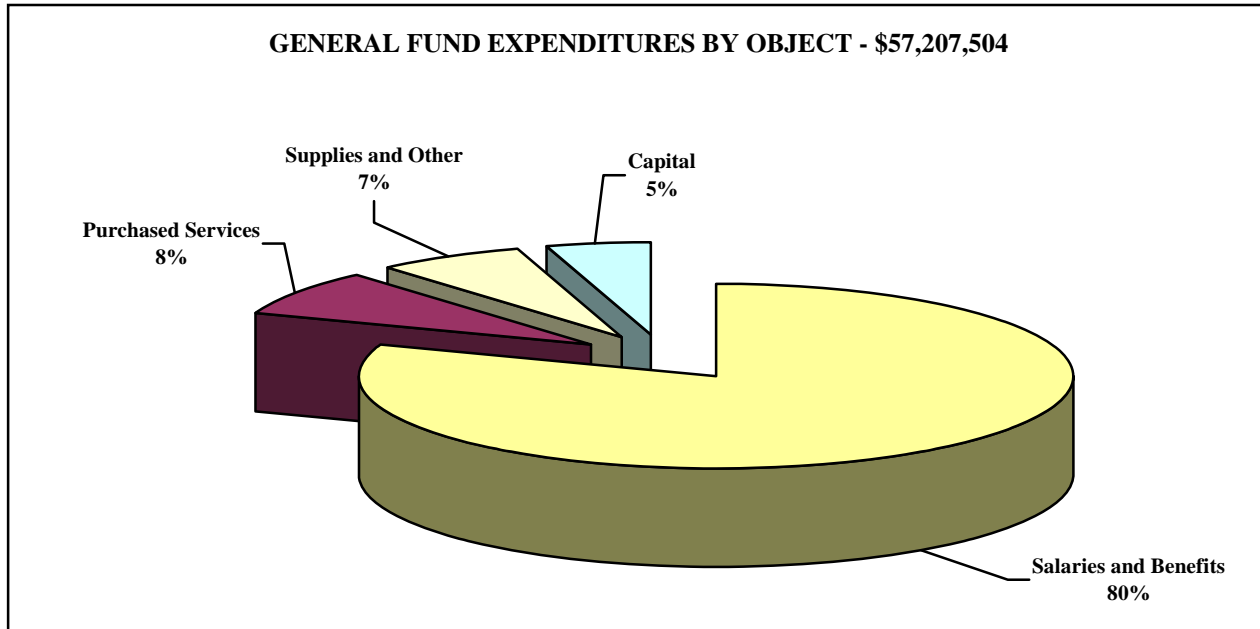
	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance Increase (Decrease)</u>
Major Funds:			
General Fund	\$ 55,099,429	\$ 57,207,504	\$ (2,108,075)
Debt Redemption Fund	3,711,775	3,447,628	264,147
Non-major Funds:			
Food Service Fund	3,018,727	2,995,766	22,961
Community Service Fund	2,376,059	2,332,742	43,317
OPEB Debt Redemption Fund	572,039	545,765	26,274
Totals	<u>\$ 64,778,029</u>	<u>\$ 66,529,405</u>	<u>\$ (1,751,376)</u>

The following graphs are presented for the general fund revenues and expenditures:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

General Fund Budgetary Highlights

During the year ended June 30, 2014, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2013, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the state of Minnesota a budget is also an appropriating document. The first revision occurred in the fall of 2013 when enrollment numbers, staffing levels and other significant informational items were more available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

Although the District's general fund final budget anticipated that expenditures would exceed revenues by \$226,529, the actual results for the year reported expenditures exceeded revenues in the amount of \$2,108,075. Actual expenditures were \$1,998,609 over the budgeted amount. Revenues exceeded the budgeted amount by \$117,063. These variances in the budget were primarily attributed to the following:

- Revenue from local property taxes was under budget by \$1,902,370 while revenue from state sources was over budget by \$2,008,909. This was due to the off-setting effect of the State paying back the property tax shift in the amount of \$1,959,897.

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

- Regular instruction was over budget by \$240,391 due to additional classroom sections in kindergarten through the 5th grade.
- Exceptional instruction was over budget by \$1,196,944 because eligible students continue to grow faster than the general increase in school district enrollment.
- Pupil support services was over budget by \$784,033 due to the addition of new counselors and psychologists. In addition, unbudgeted items consisted of the district paying off an equipment lease, purchasing two new buses equipped for special needs students and the purchase of a used wrecker.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year the District added \$1,638,283 of capital assets to its inventory records. Additions included \$54,665 of equipment, \$842,671 of transportation vehicles, and \$740,947 in new construction and other building improvements. The District disposed of various equipment and vehicles with a total original cost of \$117,790.

Long-Term Debt

As of June 30, 2014 the District's long-term indebtedness totaled \$22,602,842. This consisted of bonded indebtedness of \$18,920,000, plus net unamortized bond discount and premium of \$1,765,394, capital leases of \$964,962, and severance payable of \$952,486. As of June 30, 2014, Other Post-Employment Benefits (OPEB) has a surplus of \$2,748,825 and is included as an asset on the Statement of Net Position.

During the year the District retired \$2,925,000 of outstanding bond principal and paid \$1,068,543 of interest and fiscal fees on long-term outstanding bonds payable. The District also paid \$81,163 of total principal on the outstanding capital leases and paid \$53,811 of total interest on the outstanding capital leases. Severance Payable had a net decrease of \$79,414 and the OPEB surplus had a net decrease of \$899,051.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Political Environment

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the District receives the single largest state aid, is set at \$5,302 and it will increase to \$5,831 in the next fiscal year. This large increase will be offset by a decrease in secondary pupil weighting factor. The net effect is a 1.5% overall increase in the main funding formula for FY2015.

Labor Force

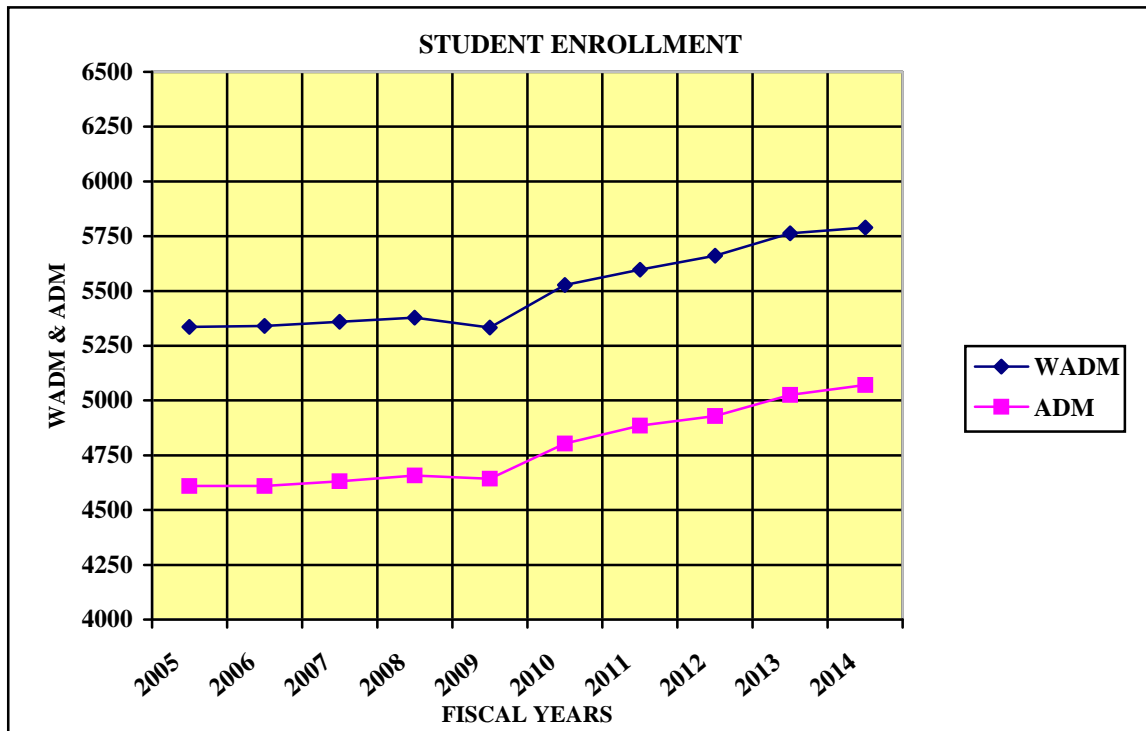
Labor contracts, which are in effect through June 30, 2015, were negotiated for the two-year period beginning July 1, 2013. For the year ended June 30, 2014 salaries, wages and benefits account for 80% of the District's general fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

Student Enrollment

The following graph shows the student enrollment trend for both weighted average daily membership (WADM) and average daily membership (ADM) for the past ten-years.



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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Cash and Investments		\$ 13,208,403
Property Taxes Receivable		3,941,109
Due from Other Governmental Units		6,332,174
Other Accounts Receivable		289,411
Inventories		348,744
Prepaid Expenditures		592,321
Other Post-Employment Benefits		2,748,825
Capital Assets:		
Land	\$ 2,907,564	
Construction in Progress	24,500	
Depreciable Capital Assets, Net of Depreciation	58,188,558	61,120,622
		<hr/>
Total Assets		<u>88,581,609</u>

LIABILITIES

Salaries and Wages Payable		4,266,296
Accounts Payable		1,034,656
Interest Payable		288,925
Due to Other School Districts		19,212
Due to Other Governmental Units		630
Payroll Deductions and Employer Contributions		681,014
Accrued Compensated Absences Payable		294,790
Unearned Revenue		999,882
Long-Term Liabilities:		
Portion Due Within One Year	3,658,266	
Portion Due After One Year	18,944,576	22,602,842
		<hr/>
Total Liabilities		<u>30,188,247</u>

DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied for Subsequent Years' Expenditures		<u>8,199,269</u>
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NET POSITION

Investment in Capital Assets		45,600,660
Restricted for:		
State Mandated Programs		4,568,196
Debt Service		1,060,325
Unrestricted		<u>(1,035,088)</u>
		<hr/>
Total Net Position		<u>\$ 50,194,093</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
District and School Administration	\$ 2,142,583	\$ -	\$ 404,467	\$ (1,738,116)
District Support Services	1,423,584	-	-	(1,423,584)
Regular Instruction	25,574,949	826,938	7,237,144	(17,510,867)
Vocational Instruction	336,746	-	35,709	(301,037)
Special Education Instruction	12,707,620	-	7,613,549	(5,094,071)
Community Education and Services	2,298,116	925,342	1,213,669	(159,105)
Instructional Support Services	2,073,411	-	932,619	(1,140,792)
Pupil Support Services	9,002,670	1,080,125	2,897,726	(5,024,819)
Site, Buildings and Equipment	8,475,355	13,655	510,121	(7,951,579)
Fiscal and Other Fixed Costs	240,762	-	-	(240,762)
Interest on Long-Term Debt	694,422	-	-	(694,422)
Unallocated Depreciation	36,500	-	-	(36,500)
Total Governmental Activities	<u>\$ 65,006,718</u>	<u>\$ 2,846,060</u>	<u>\$ 20,845,004</u>	<u>(41,315,654)</u>
 <u>General Revenues:</u>				
Property Taxes:				
				2,959,752
				199,805
				3,672,448
				570,629
				33,500,157
				4,717
				164,046
				<u>41,071,554</u>
				(244,100)
				<u>50,438,193</u>
				<u>\$ 50,194,093</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash	\$ 3,621,739	\$ 3,108,289	\$ 1,475,524	\$ 8,205,552
Investments	5,002,851	-	-	5,002,851
Property Taxes Receivable	1,959,440	1,550,769	430,900	3,941,109
Due from Other Governmental Units	6,052,434	2,711	277,029	6,332,174
Other Accounts Receivable	202,444	-	86,967	289,411
Inventories	326,610	-	22,134	348,744
Prepaid Expenditures	592,321	-	-	592,321
<u>Total Assets</u>	<u>\$ 17,757,839</u>	<u>\$ 4,661,769</u>	<u>\$ 2,292,554</u>	<u>\$ 24,712,162</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 4,100,321	\$ -	\$ 165,975	\$ 4,266,296
Accounts Payable	1,007,463	-	27,193	1,034,656
Due to Other Minnesota School Districts	19,212	-	-	19,212
Due to Other Governmental Units	630	-	-	630
Payroll Deductions and Employer Contributions	655,527	-	25,487	681,014
Unearned Revenue	969,566	-	30,316	999,882
<u>Total Liabilities</u>	<u>6,752,719</u>	<u>-</u>	<u>248,971</u>	<u>7,001,690</u>
 <u>Deferred Inflows of Resources</u>				
Unavailable Revenue - Delinquent Taxes	118,642	102,765	18,598	240,005
Property Taxes Levied for Subsequent Years' Expenditures	3,870,689	3,369,248	959,332	8,199,269
<u>Total Deferred Inflows of Resources</u>	<u>3,989,331</u>	<u>3,472,013</u>	<u>977,930</u>	<u>8,439,274</u>
 <u>Fund Equity</u>				
Nonspendable	918,931	-	22,134	941,065
Restricted	3,482,020	1,189,756	1,124,308	5,796,084
Committed	577,793	-	-	577,793
Unassigned (Deficit)	2,037,045	-	(80,789)	1,956,256
<u>Total Fund Equity</u>	<u>7,015,789</u>	<u>1,189,756</u>	<u>1,065,653</u>	<u>9,271,198</u>
<u>Total Liabilities, Deferred Inflows of Resources and Fund Equity</u>	<u>\$ 17,757,839</u>	<u>\$ 4,661,769</u>	<u>\$ 2,292,554</u>	<u>\$ 24,712,162</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances - Governmental Funds \$ 9,271,198

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

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

Cost	\$ 105,898,501	
Accumulated Depreciation	(44,777,879)	
Net Depreciated Value of Capital Assets	61,120,622	61,120,622

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (288,925)

The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues. 240,005

Other post-employment benefits (OPEB) are normally reported as long-term liabilities and the liability is amortized over future periods. However, the District has issued bonds to pay for the OPEB liabilities, therefore, the liability is considered as prepaid and reported as an asset in the statement of net position. 2,748,825

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities - both current and long-term are reported in the statement of net position.

General Obligation Bonds Payable	(18,920,000)	
Net Unamortized Bond Discount/Premium	(1,765,394)	
Capital Lease Payable	(964,962)	
Compensated Absences Payable	(294,790)	
Severance Payable	(952,486)	
	(22,897,632)	(22,897,632)

Total Net Position - Governmental Activities \$ 50,194,093

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Debt Redemption	Other Governmental Funds	Totals
<u>Revenues</u>				
Local Property Taxes	\$ 2,966,449	\$ 3,683,536	\$ 768,060	\$ 7,418,045
Other Local and County Revenues	1,164,271	-	836,549	2,000,820
Revenues from State Sources	47,362,619	27,107	910,550	48,300,276
Revenues from Federal Sources	3,558,905	-	2,371,117	5,930,022
Sales and Other Conversions of Assets	44,024	-	1,080,125	1,124,149
Investment Earnings	3,161	1,132	424	4,717
Total Revenues	55,099,429	3,711,775	5,966,825	64,778,029
<u>Expenditures</u>				
District and School Administration	2,140,787	-	-	2,140,787
District Support Services	1,408,790	-	-	1,408,790
Regular Instruction	24,714,036	-	-	24,714,036
Vocational Instruction	307,444	-	-	307,444
Special Education Instruction	12,848,000	-	-	12,848,000
Community Education and Services	-	-	2,318,072	2,318,072
Instructional Support Services	2,063,975	-	-	2,063,975
Pupil Support Services	6,164,454	-	3,010,436	9,174,890
Site, Buildings, and Equipment	7,319,256	-	-	7,319,256
Fiscal and Other Fixed Costs	240,762	-	-	240,762
Debt Service:				
Principal Retirement	-	2,625,000	300,000	2,925,000
Interest and Fiscal Fees	-	822,628	245,765	1,068,393
Total Expenditures	57,207,504	3,447,628	5,874,273	66,529,405
<u>Excess of Revenues Over (Under) Expenditures</u>	(2,108,075)	264,147	92,552	(1,751,376)
<u>Fund Balances, Beginning of Year</u>	9,123,864	925,609	973,101	11,022,574
<u>Fund Balances, End of Year</u>	\$ 7,015,789	\$ 1,189,756	\$ 1,065,653	\$ 9,271,198

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds		\$ (1,751,376)
 Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Outlay	\$ 1,638,283	
Loss on Equipment Disposal	(2,294)	
Depreciation Expense	<u>(2,653,266)</u>	(1,017,277)
 Deferred delinquent property taxes are not available to pay current period expenditures and, therefore, are deferred in the funds.		
Balances at June 30, 2014	240,005	
Balances at June 30, 2013	<u>(255,413)</u>	(15,408)
 Interest on long-term debt is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless when it is due.		
Accrued Interest at June 30, 2014	(288,925)	
Accrued Interest at June 30, 2013	<u>359,748</u>	70,823
 Other Post-Employment Benefits (OPEB) are reported in the statement of activities but does not require the use of current financial resources and therefore, is not reported as an expenditure in the governmental funds.		
		(899,051)
 Compensated absences consisting of vacation pay is reported in the statement of activities but does not require the use of the current financial resources and therefore, is not reported as an expenditure in the governmental funds.		
Compensated Absences at June 30, 2014	(294,790)	
Compensated Absences at June 30, 2013	<u>274,254</u>	(20,536)
 Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the statement of assets. In the current period these amounts consist of:		
Bond Principal Retirement	2,925,000	
Capital Lease Payments	81,163	
Net Amortization of Bond Premium/Discount	303,148	
Net Decrease in Severance Payable	<u>79,414</u>	<u>3,388,725</u>
Change in Net Position of Government Activities		<u>\$ (244,100)</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION -
TRUST AND AGENCY FUNDS
JUNE 30, 2014

	<u>OPEB Irrevocable Trust Fund</u>	<u>Combined Agency Funds</u>
<u>ASSETS</u>		
Cash and Investments	\$ 4,238,555	\$ 618,389
Accrued Interest Receivable	33,237	-
	<hr/>	<hr/>
<u>Total Assets</u>	<u>\$ 4,271,792</u>	<u>\$ 618,389</u>
 <u>LIABILITIES</u>		
Accounts Payable	\$ -	\$ 260,630
Due to Organizations	-	357,759
	<hr/>	<hr/>
<u>Total Liabilities</u>	<u>-</u>	<u>\$ 618,389</u>
 <u>NET POSITION</u>		
Net Position Held in Trust	<u>\$ 4,271,792</u>	

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
TRUST FUND
YEAR ENDED JUNE 30, 2014

	<u>OPEB Irrevocable Trust Fund</u>
<u>Additions:</u>	
Investment Earnings	\$ 54,641
<u>Deductions:</u>	
Employee Benefits	<u>211,564</u>
<u>Change in Net Position</u>	(156,923)
<u>Net Position - Beginning of Year</u>	<u>4,428,715</u>
<u>Net Position - End of Year</u>	<u><u>\$ 4,271,792</u></u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Independent School District No. 31 have been prepared in conformity with U. S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2014. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

A. Reporting Entity

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

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

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

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

B. Financial Statement Presentation

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the district-wide financial statements. There were no inter-fund activities between funds in the current fiscal year.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2013 payable 2014 levy has been recognized as revenue during the current year, as discussed in Note 4.

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

Other revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Description of Funds

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

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

Governmental Funds

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

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

Fiduciary Funds

Trust Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

Post-Employment Benefits Irrevocable Trust Fund – The District is the trustee, or fiduciary, for assets set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund are expensed to the general, food service or community service funds.

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Property Taxes Receivable - represents current and delinquent taxes receivable at June 30, 2014. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivables are taxes collectible for the 2007 through 2013 calendar years that remain uncollected.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

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

- **Nonspendable** – amounts are in a nonspendable form (such as inventory or prepaid or prepaid items) or are required to be maintained intact.
- **Restricted** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned** – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Fund balance policy requires that at least 10% of the general fund operating budget is a combination of committed, assigned and unassigned fund balances. If the amount is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$3,939,113 (including adding back a negative fund balance restricted for health & safety of \$1,324,275) represents 6.9% of the 2014 general fund expenditures of \$57,207,504 and therefore will trigger the actions described above.

As of June 30, 2014, fund balances are composed of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Nonspendable:				
Inventory	\$ 326,610	\$ -	\$ 22,134	\$ 348,744
Prepaid Expenses	592,321	-	-	592,321
Restricted:				
Staff Development	203,248	-	-	203,248
Deferred Maintenance	310,988	-	-	310,988
Operating Capital	1,817,333	-	-	1,817,333
State Approved Alternative Program	575,590	-	-	575,590
Gifted and Talented	95,496	-	-	95,496
Basic Skills	184,307	-	-	184,307
Safe Schools - Crime Levy	295,058	-	-	295,058
Food Service	-	-	844,111	844,111
Early Childhood and Family Education	-	-	223,797	223,797
Adult Basic Education	-	-	8,398	8,398
OPEB Debt Service	-	-	48,002	48,002
Debt Service	-	1,189,756	-	1,189,756
Committed:				
Separation/Retirement Benefits	577,793	-	-	577,793
Unassigned	2,037,045	-	(80,789)	1,956,256
Totals	<u>\$ 7,015,789</u>	<u>\$ 1,189,756</u>	<u>\$ 1,065,653</u>	<u>\$ 9,271,198</u>

E. Compensated Absences

Vacation Pay – Certified staff and certain administrative employees do not receive paid vacations but are paid only for the number of days they are required to work, each in accordance with their respective contracts. Non-certified and other administrative employees are allowed vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Accrued vacation time must be taken within one year after the end of the fiscal year. Compensated absences payable for the amount representing the accumulated vacation payable at June 30, 2014 for these employees is reported in the district-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

F. Use of Estimates

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

G. Change in Accounting Principle

During the year ended June 30, 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows of resources or inflows (revenues).

NOTE 2 – Stewardship, Compliance, Accountability

Expenditures in Excess of Budget

Actual expenditures exceeded budget in the amount of \$1,998,609 for the year ended June 30, 2014 in the General Fund. This overage was considered by School Management to be the result of necessary expenditures critical to operations and was approved by the School Board.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – Deposit and Investments

The District’s cash and investments are as follows:

	<u>Governmental Activities/ Funds</u>	<u>OPEB Irrevocable Trust Fund</u>	<u>Fiduciary Funds</u>
Pooled Depository Accounts:			
Checking	\$ 828,786	\$ -	\$ -
Savings	101,746	-	-
Student Activity Depository Accounts - Checking and Money Market	-	-	357,759
Pooled Investments - MSDLAF+	12,277,871	-	-
Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	-	260,630
Investments with MN Trust and Associated Wealth Management:			
MNTrust Money Market Account	-	252,857	-
Certificates of Deposit	-	2,721,317	-
Municipal Bonds	-	1,264,381	-
Total Cash and Investments	<u>\$ 13,208,403</u>	<u>\$ 4,238,555</u>	<u>\$ 618,389</u>

A. Deposits

Authority - In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2014.

B. Investments

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – Deposit and Investments (Continued)

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

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

<u>Investments</u>	<u>Credit Risk</u>		<u>Interest Risk - Maturity Duration in Years:</u>			<u>Total</u>
	<u>Rating</u>	<u>Agency</u>	<u>Less than 1</u>	<u>1 to 3</u>	<u>Over 3</u>	
Certificates of Deposit	N/A	N/A	\$ 998,075	\$ 909,984	\$ 813,258	\$ 2,721,317
Investment Pool:						
MSDLAF+ - Money Market Accounts	AAAm	S&P				12,538,501
MN Trust - Money Market Accounts	AAAm	S&P				252,857
Municipal Bonds:						
Centerville, Minnesota Bonds	AA	S&P	-	282,855	-	282,855
Glendale Heights, Illinois Bonds	AA	S&P	554,004	-	-	554,004
Minnesota Metropolitan Council Bonds	AAA	S&P	427,522	-	-	427,522
Total Investments						<u>\$ 16,777,056</u>

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

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

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

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District has total investments of \$4,238,555 in the OPEB irrevocable Trust Fund. All of the individual municipal bonds exceed 5% of total investments.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 – Property Taxes

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

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

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

The total net tax capacity for levy year 2013 (payable in 2014) was \$29,700,689 with a referendum market value of \$2,255,275,720. The net capacity rate was 21.121% and a school district referendum rate of 0.09914%.

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

NOTE 5 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2014 are as follows:

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Redemption</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Other Minnesota School Districts	\$ 417,202	\$ -	\$ -	\$ 417,202
Minnesota Department of Education:				
State Aids and Grants	4,512,657	2,711	61,109	4,576,477
Federal Aids and Grants	1,092,652	-	215,920	1,308,572
Hubbard County	16,531	-	-	16,531
Other Governmental Units	13,392	-	-	13,392
Totals	<u>\$ 6,052,434</u>	<u>\$ 2,711</u>	<u>\$ 277,029</u>	<u>\$ 6,332,174</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets				
Land	\$ 2,907,564	\$ -	\$ -	\$ 2,907,564
Construction in Progress	229,010	24,500	229,010	24,500
Total Non-depreciable Capital Assets	<u>3,136,574</u>	<u>24,500</u>	<u>229,010</u>	<u>2,932,064</u>
Depreciable Capital Assets:				
Land Improvements	3,503,487	238,195	-	3,741,682
Buildings	86,751,402	707,262	-	87,458,664
Equipment	10,986,545	897,336	117,790	11,766,091
Total Depreciable Capital Assets	<u>101,241,434</u>	<u>1,842,793</u>	<u>117,790</u>	<u>102,966,437</u>
Total Capital Assets	<u>104,378,008</u>	<u>1,867,293</u>	<u>346,800</u>	<u>105,898,501</u>
Accumulated Depreciation:				
Land Improvements	2,035,079	139,591	-	2,174,670
Buildings	32,342,256	1,740,379	-	34,082,635
Equipment	7,862,774	773,296	115,496	8,520,574
Total Accumulated Depreciation	<u>42,240,109</u>	<u>2,653,266</u>	<u>115,496</u>	<u>44,777,879</u>
Capital Assets, Net of Depreciation	<u>\$ 62,137,899</u>	<u>\$ (785,973)</u>	<u>\$ 231,304</u>	<u>\$ 61,120,622</u>

Depreciation expense was charged to the following program services:

District Support Services	\$ 10,393
Regular Instruction	12,485
Vocational Instruction	21,605
Special Education Instruction	2,622
Instructional Support Services	7,739
Pupil Support Services	554,219
Site, Buildings and Equipment	2,007,703
Unallocated	36,500
Total	<u>\$ 2,653,266</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – Pension Plans

A. Teachers Retirement Association

Plan Description

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

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

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

Tier I:

<u>Step Rate Formula</u>	<u>Coordinated</u>	<u>Basic</u>
1 st ten years prior to July 1, 2006	1.2 percent per year	2.2 percent per year
1 st ten years on or after July 1, 2006	1.4 percent per year	2.2 percent per year
All other years prior to July 1, 2006	1.7 percent per year	2.7 percent per year
All other years on or after July 1, 2006	1.9 percent per year	2.7 percent per year

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated members and 2.7 percent per year for Basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – Pension Plans (Continued)

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

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the 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 benefit provisions. The report may be accessed at the TRA website www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
651-296-2409
800-657-3669

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated members and 10.5 percent for Basic members during fiscal year 2014. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2013 was approximately \$3.92 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2012 and June 30, 2011 were \$3.87 billion and \$3.84 billion, respectively.

The District's contributions for the years ending June 30, 2014, 2013, and 2012 were \$1,652,720, \$1,479,314 and \$1,338,689 respectively, equal to the required contributions for each year as set by state statute.

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – Pension Plans (Continued)

B. Public Employees Retirement Association

Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

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

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – Pension Plans (Continued)

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

Funding Policy

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

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013, and 2012 were \$857,104, \$817,784 and \$810,553, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

NOTE 8 – Other Post-Employment Benefits

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

A. Plan Description

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

B. Funding Policy

Retirees' who participate in the District's health and/or dental insurance plan pay 100% of their premium cost(s). There is no district contribution; however, as calculated in the District's actuarial study there is an implicit rate subsidy cost to the district as a result of retiree's participating in the health and dental plans. The implicit rate subsidy cost calculation is based on a set of input data to determine the implied cost effect to the district for retiree participation. Per the actuarial study performed the District's implicit rate subsidy cost as of July 1, 2013 was \$394,217.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – Other Post-Employment Benefits (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 812,030
Interest on Net OPEB Obligation	(109,436)
Adjustment to Annual Required Contribution	<u>196,457</u>
Annual OPEB Cost (Expense)	899,051
Contributions Made	<u>-</u>
Increase in Net OPEB Obligation	899,051
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(3,647,876)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (2,748,825)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u> <u>(Surplus)</u>
6/30/2012	\$ 476,654	\$ 420,021	88.1%	\$ (3,940,494)
6/30/2013	811,914	519,296	64.0%	(3,647,876)
6/30/2014	899,051	-	0.0%	(2,748,825)

D. Funded Status and Funding Progress

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – Other Post-Employment Benefits (Continued)

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5%, reduced by decrements to an ultimate rate of 5% after five years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis.

NOTE 9 – Operating Leases

The District has entered into operating lease agreements as follows:

<u>Lessee</u>	<u>Program</u>	<u>End Date</u>	<u>Annual Rent</u>
Beltrami County	ECFE & ECSE	June 30, 2015	\$ 111,078
Nonprofit entity	AEC, Home Based EC	June 30, 2016	37,012
White Earth Band of Ojibwe Indians	Sober School	August 31, 2014	13,728
Nonprofit entity	Boys & Girls Hockey	June 30, 2015	20,400
Bemidji State University	Facilities Lease	August 31, 2018	40,000

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 – Capital Leases

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
Wells Fargo Bank	\$ 948,460	\$ -	\$ 57,940	\$ 890,520
John Deere Financial	97,665	-	23,223	74,442
Total Capital Leases	<u>\$ 1,046,125</u>	<u>\$ -</u>	<u>\$ 81,163</u>	<u>\$ 964,962</u>

The District's capital lease assets total \$1,230,774 with accumulated depreciation of \$85,054.

The payments on the capital leases are accounted for in the General Fund. The annual requirements to amortize the capital leases at June 30, 2014 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2015	\$ 85,118	\$ 49,856	\$ 134,974
2016	89,273	45,700	134,973
2017	93,641	41,334	134,975
2018	71,732	36,747	108,479
2019	75,665	32,813	108,478
2020-2024	445,301	97,093	542,394
2025	104,232	4,248	108,480
Totals	<u>\$ 964,962</u>	<u>\$ 307,791</u>	<u>\$ 1,272,753</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - Long-Term Debt

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

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
General Obligation Bonds:						
2009A Taxable OPEB Bonds	\$ 4,665,000	\$ -	\$ 300,000	\$ 4,365,000	\$ 310,000	\$ 230,340
2013A G. O. Bonds	17,180,000	-	2,625,000	14,555,000	2,800,000	670,600
Total General Obligation Bonds	21,845,000	-	2,925,000	18,920,000	3,110,000	900,940
Unamortized Bond Discounts	(171,142)	-	(25,352)	(145,790)	(25,352)	-
Unamortized Bond Premium	2,239,684	-	328,500	1,911,184	328,500	-
Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium	23,913,542	-	3,228,148	20,685,394	3,413,148	900,940
Capital Leases Payable (See Note 10):						
Wells Fargo	948,460	-	57,940	890,520	61,117	47,362
John Deere Financial	97,665	-	23,223	74,442	24,001	2,494
Total Capital Leases Payable	1,046,125	-	81,163	964,962	85,118	49,856
Separation and Retirement Benefits:						
Severance Payable	1,031,900	80,520	159,934	952,486	160,000	-
Total Long-Term Debt	\$ 25,991,567	\$ 80,520	\$ 3,469,245	\$ 22,602,842	\$ 3,658,266	\$ 950,796

General obligation bonds are comprised of the following individual issues at June 30, 2014:

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

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

The annual requirements to amortize the general obligation bonds at June 30, 2014 are as follows:

<u>Fiscal Year Ended</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2015	\$ 3,110,000	\$ 900,940	\$ 4,010,940
2016	3,240,000	773,440	4,013,440
2017	3,140,000	640,590	3,780,590
2018	3,300,000	483,590	3,783,590
2019	3,460,000	318,590	3,778,590
2020-2024	2,165,000	512,565	2,677,565
2025	505,000	29,038	534,038
Totals	\$ 18,920,000	\$ 3,658,753	\$ 22,578,753

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - Long-Term Debt (Continued)

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

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions and there were no authorized and un-issued bonds at June 30, 2014.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2014. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2013. Estimated additions and subtractions from that estimate have occurred since that date.

NOTE 12 - Risk Management

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

NOTE 13 - Commitments and Contingencies

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collection of any related receivable at June 30, 2014 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 14 – Subsequent Event

On November 4, 2014, The District's voters approved a referendum to authorize a new bond issue in the amount of \$39,815,000. The bond issue will provide funding to construct and operate a new elementary school and provide a new HVAC system at the Bemidji middle school.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Taxes	\$ 4,611,583	\$ 4,868,819	\$ 2,966,449	\$ (1,902,370)
Other Local and County Revenues	1,459,493	1,236,060	1,164,271	(71,789)
Revenues from State Sources	44,361,408	45,353,710	47,362,619	2,008,909
Revenues from Federal Sources	3,962,139	3,498,363	3,558,905	60,542
Sales and Other Conversions of Assets	21,164	21,164	44,024	22,860
Investment Earnings	4,250	4,250	3,161	(1,089)
Total Revenues	54,420,037	54,982,366	55,099,429	117,063
<u>Expenditures</u>				
District and School Administration	2,063,040	2,085,023	2,140,787	(55,764)
District Support Services	1,392,863	1,404,514	1,408,790	(4,276)
Regular Instruction	23,897,500	24,473,645	24,714,036	(240,391)
Vocational Instruction	505,196	509,734	307,444	202,290
Special Education Instruction	11,732,695	11,651,056	12,848,000	(1,196,944)
Instructional Support Services	1,986,245	2,270,075	2,063,975	206,100
Pupil Support Services	5,375,143	5,380,421	6,164,454	(784,033)
Site, Buildings and Equipment	6,879,147	7,254,049	7,319,256	(65,207)
Fiscal and Other Fixed Costs	180,378	180,378	240,762	(60,384)
Total Expenditures	54,012,207	55,208,895	57,207,504	(1,998,609)
<u>Excess of Revenues Over (Under)</u>				
<u>Expenditures</u>	407,830	(226,529)	(2,108,075)	(1,881,546)
<u>Fund Balances, Beginning of Year</u>	9,123,864	9,123,864	9,123,864	-
<u>Fund Balances, End of Year</u>	\$ 9,531,694	\$ 8,897,335	\$ 7,015,789	\$ (1,881,546)

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ -	\$ 5,472,770	\$ 5,472,770	0.00%	\$ 29,456,373	18.58%
July 1, 2009	49,506	6,490,077	6,440,571	0.76%	29,659,335	21.72%
July 1, 2011	4,587,022	6,130,609	1,543,587	74.80%	29,802,510	5.20%
July 1, 2013	4,428,715	9,582,643	5,153,928	46.20%	33,112,290	15.57%

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

NOTE 1 – Budgetary Data

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

Legal Compliance – Budgets

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

NOTE 2 – Stewardship, Compliance, Accountability

Expenditures in Excess of Budget

Actual expenditures exceeded budget in the amount of \$1,998,609 for the year ended June 30, 2014 in the General Fund. This overage was considered by School Management to be the result of necessary expenditures critical to operations and was approved by the School Board.

NOTE 3 – Other Post-Employment Benefit Plan Funding Progress

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>ASSETS</u>	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
Cash	\$ 937,528	\$ 166,938	\$ 371,058	\$ 1,475,524
Property Taxes Receivable	-	178,367	252,533	430,900
Due from Other Governmental Units	24,311	252,297	421	277,029
Other Accounts Receivable	-	86,967	-	86,967
Inventory	22,134	-	-	22,134
<u>Total Assets</u>	<u>\$ 983,973</u>	<u>\$ 684,569</u>	<u>\$ 624,012</u>	<u>\$ 2,292,554</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u>				
<u>AND FUND EQUITY</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 76,098	\$ 89,877	\$ -	\$ 165,975
Accounts Payable	7,497	19,696	-	27,193
Payroll Deductions and Employer Contributions	11,808	13,679	-	25,487
Unearned Revenue	22,325	7,991	-	30,316
Total Liabilities	<u>117,728</u>	<u>131,243</u>	<u>-</u>	<u>248,971</u>
 <u>Deferred Inflows of Resources</u>				
Unavailable Revenue - Delinquent Taxes	-	9,871	8,727	18,598
Property Taxes Levied for Subsequent Expenditures	-	392,049	567,283	959,332
Total Deferred Inflows of Resources	<u>-</u>	<u>401,920</u>	<u>576,010</u>	<u>977,930</u>
 <u>Fund Equity</u>				
Nonspendable	22,134	-	-	22,134
Restricted for:				
Early Childhood and Family Education	-	223,797	-	223,797
Adult Basic Education	-	8,398	-	8,398
Food Service	844,111	-	-	844,111
OPEB Debt Service	-	-	48,002	48,002
Unassigned (Deficit)	-	(80,789)	-	(80,789)
Total Fund Equity	<u>866,245</u>	<u>151,406</u>	<u>48,002</u>	<u>1,065,653</u>
<u>Total Liabilities, Deferred Inflows of Resources and Fund Equity</u>	<u>\$ 983,973</u>	<u>\$ 684,569</u>	<u>\$ 624,012</u>	<u>\$ 2,292,554</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
<u>Revenues</u>				
Local Property Taxes	\$ -	\$ 200,229	\$ 567,831	\$ 768,060
Other Local and County Revenues	30,526	806,023	-	836,549
Revenues from State Sources	110,187	796,155	4,208	910,550
Revenues from Federal Sources	1,797,512	573,605	-	2,371,117
Sales and Other Conversions of Assets	1,080,125	-	-	1,080,125
Investment Earnings	377	47	-	424
Total Revenues	<u>3,018,727</u>	<u>2,376,059</u>	<u>572,039</u>	<u>5,966,825</u>
<u>Expenditures</u>				
Community Education and Services	-	2,318,072	-	2,318,072
Pupil Support Services	2,995,766	14,670	-	3,010,436
Debt Service:				
Principal Retirement	-	-	300,000	300,000
Interest and Fiscal Fees	-	-	245,765	245,765
Total Expenditures	<u>2,995,766</u>	<u>2,332,742</u>	<u>545,765</u>	<u>5,874,273</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	22,961	43,317	26,274	92,552
<u>Fund Balances, Beginning of Year</u>	<u>843,284</u>	<u>108,089</u>	<u>21,728</u>	<u>973,101</u>
<u>Fund Balances, End of Year</u>	<u>\$ 866,245</u>	<u>\$ 151,406</u>	<u>\$ 48,002</u>	<u>\$ 1,065,653</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
AGENCY FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Student Activities</u>				
<u>Assets</u>				
Cash and Investments	\$ 335,831	\$ 592,473	\$ 570,545	\$ 357,759
<u>Liabilities</u>				
Due to Student Organizations	\$ 335,831	\$ 592,473	\$ 570,545	\$ 357,759
 <u>BEA Retiree Fringe Benefit Pool</u>				
<u>Assets</u>				
Cash and Investments	\$ 89,709	\$ 490,875	\$ 319,954	\$ 260,630
<u>Liabilities</u>				
Due to Bemidji Education Association	\$ 89,709	\$ 320,032	\$ 149,111	\$ 260,630
 <u>Total All Agency Funds</u>				
<u>Assets</u>				
Cash and Investments	\$ 425,540	\$ 1,083,348	\$ 890,499	\$ 618,389
<u>Liabilities</u>				
Due to Bemidji Education Association	89,709	320,032	149,111	260,630
Due to Student Organizations	335,831	592,473	570,545	357,759
<u>Total Liabilities</u>	\$ 425,540	\$ 912,505	\$ 719,656	\$ 618,389

FISCAL COMPLIANCE REPORT - 6/30/2014
District: BEMIDJI (0031-01)

	Audit (-)				Audit (-)		
	Audit	UFARS	UFARS		Audit	UFARS	UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$55,099,429	\$55,099,427	\$2	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$57,207,504	\$57,207,501	\$3	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$918,931	\$918,931	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$203,248	\$203,248	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$310,988	\$310,988	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	-\$1,324,275	\$1,324,275	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.09 Alternative Facility Program	\$0	\$0	\$0	Unassigned:			
4.13 Project Funded by COP	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0				
4.16 Levy Reduction	\$0	\$0	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	\$0	\$0	Total Revenue	\$3,711,775	\$3,711,776	-\$1
4.23 Certain Teacher Programs	\$0	\$0	\$0	Total Expenditures	\$3,447,628	\$3,447,628	\$0
4.24 Operating Capital	\$1,817,333	\$1,817,333	\$0	Non Spendable:			
4.26 \$25 Taconite	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Restricted/Reserved:			
4.28 Learning & Development	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	Restricted:			
4.36 State Approved Alt. Program	\$575,590	\$575,590	\$0	4.64 Restricted Fund Balance	\$1,189,756	\$1,189,756	\$0
4.38 Gifted & Talented	\$95,496	\$95,496	\$0	Unassigned:			
4.41 Basic Skills Program	\$184,307	\$184,307	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.45 Career Tech Programs	\$0	\$0	\$0				
4.48 Achievement and Integration	\$0	\$0	\$0	08 TRUST			
4.49 Safe Schools Crime - Crime Levy	\$295,058	\$295,058	\$0	Total Revenue	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	20 INTERNAL SERVICE			
Restricted:				Total Revenue	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Committed:				4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.18 Committed for Separation	\$577,793	\$577,793	\$0				
4.61 Committed Fund Balance	\$0	\$0	\$0	25 OPEB REVOCABLE TRUST			
Assigned:				Total Revenue	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Unassigned:				4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$2,037,045	\$3,361,320	-\$1,324,275				
02 FOOD SERVICES				45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$3,018,727	\$3,018,725	\$2	Total Revenue	\$54,641	\$54,641	\$0
Total Expenditures	\$2,995,766	\$2,995,764	\$2	Total Expenditures	\$211,564	\$211,565	-\$1
Non Spendable:				4.22 Unassigned Fund Balance	\$4,271,792	\$4,271,792	\$0
4.60 Non Spendable Fund Balance	\$22,134	\$22,134	\$0				
Restricted/Reserved:				47 OPEB DEBT SERVICE			
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Total Revenue	\$572,039	\$572,039	\$0
Restricted:				Total Expenditures	\$545,765	\$545,765	\$0
4.64 Restricted Fund Balance	\$844,111	\$844,111	\$0	Non Spendable:			
Unassigned:				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0	Restricted:			
				4.25 Bond Refunding	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$48,002	\$48,002	\$0
				Unassigned:			
				4.63 Unassigned Fund Balance	\$0	\$0	\$0
04 COMMUNITY SERVICE							
Total Revenue	\$2,376,059	\$2,376,060	-\$1				
Total Expenditures	\$2,332,742	\$2,332,742	\$0				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$0	-\$72,382	\$72,382				
4.32 E.C.F.E.	\$223,797	\$223,797	\$0				
4.44 School Readiness	\$0	-\$8,407	\$8,407				
4.47 Adult Basic Education	\$8,398	\$8,398	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	-\$80,789	\$0	-\$80,789				

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>			
Pass-Through Minnesota Department of Education:			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	\$ 296,890	
National School Lunch Program	10.555	1,174,729	
Commodities Cash Rebate	10.555	27,610	
Commodity Distribution	10.555	184,479	
Summer Food Program	10.559	<u>69,971</u>	
Total Child Nutrition Cluster			\$ 1,753,679
Fresh Fruit and Vegetables Program	10,582		16,686
Child and Adult Care	10.558		<u>27,147</u>
Total Department of Agriculture			<u>1,797,512</u>
<u>U. S. Department of Interior</u>			
Pass-Through Red Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130		14,368
Pass-Through Leech Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130		<u>2,692</u>
Total Department of Interior			<u>17,060</u>
<u>U. S. Department of Education</u>			
Direct Programs:			
Impact Aid	84.041		74,761
Indian Education Grants to Local Education Agencies	84.060		210,026
Pass-Through Minnesota Department of Education:			
Adult Education - Basic Grants to States	84.002		4,577
Improving Teacher Quality State Grants	84.367		294,200
Title I Cluster:			
Title I Grants to Local Education Agencies	84.010	1,402,392	
Title I (N & D)	84.010A	<u>183,129</u>	
Total Title I Cluster			1,585,521
Special Education Cluster:			
Special Education Part B Sec 611 Regular Allocation	84.027	1,055,743	
Part B- Coordinated Early Intervening Services (CEIS)	84.027	10,000	
CIMP	84.027	<u>9,570</u>	
Sub-total		1,075,313	
Special Education - Part B Section 619 Preschool Regular	84.173	<u>66,604</u>	
Total Special Education Cluster			1,141,917

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Special Education - Part C IEIC, Ages 0-2	84.181	37,584
Title X, Part C - Sub B: Education for Homeless Children & Youth	84.196	37,921
Title IV Part B 21st Century Community Learning Centers	84.287	569,027
Title VI, Part B Rural and Low-Income Schools	84.358	99,478
Pass-Through North Country Vocational Cooperative Center:		
Carl Perkins Career and Technical Education	84.243	1,557
Carl Perkins Career and Technical Reserve	84.048	29,388
Pass-Through Bemidji Regional Interdistrict Cooperative:		
IDEA Part B - Discretionary Low Incidence	84.027	29,491
Total Department of Education		<u>4,115,448</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 5,930,020</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

NOTE 1 - Basis of Presentation

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

NOTE 2 - Child Nutrition Cluster

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

NOTE 3 - Food Donation Program

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

NOTE 4 - Matching Requirements

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

NOTE 5 – Pass-through Entities

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2014
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Property Tax Levies										
General Referendum	\$ 2,235,880	\$ 2,790,555	\$ 2,753,636	\$ 2,735,198	\$ 2,737,078	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688	\$ 1,784,861	\$ 1,414,701
General Maintenance	1,944,504	1,755,458	1,656,050	1,626,433	1,973,806	1,727,879	1,760,443	1,363,836	931,211	184,055
Community Service	392,049	391,859	388,022	360,331	351,091	359,408	311,974	351,150	318,539	294,045
Debt Redemption	3,369,247	3,688,980	3,627,350	4,274,766	3,944,315	4,141,766	4,181,544	4,421,541	4,576,783	5,092,734
OPEB Pension Debt	567,283	572,559	571,797	-	-	-	-	-	-	-
Total Property Tax Levies	<u>\$ 8,508,963</u>	<u>\$ 9,199,411</u>	<u>\$ 8,996,855</u>	<u>\$ 8,996,728</u>	<u>\$ 9,006,290</u>	<u>\$ 8,838,514</u>	<u>\$ 8,618,213</u>	<u>\$ 8,194,215</u>	<u>\$ 7,611,394</u>	<u>\$ 6,985,535</u>

Taxable Net Tax Capacity										
Beltrami County	\$ 26,472,612	\$ 26,192,709	\$ 26,203,618	\$ 26,682,043	\$ 26,368,601	\$ 25,601,517	\$ 24,068,019	\$ 21,976,481	\$ 18,598,643	\$ 16,487,326
Hubbard County	3,228,077	3,094,207	3,081,085	3,270,691	3,460,714	3,336,329	3,086,630	2,579,451	2,261,810	1,936,573
Total Net Tax Capacity	<u>\$ 29,700,689</u>	<u>\$ 29,286,916</u>	<u>\$ 29,284,703</u>	<u>\$ 29,952,734</u>	<u>\$ 29,829,315</u>	<u>\$ 28,937,846</u>	<u>\$ 27,154,649</u>	<u>\$ 24,555,932</u>	<u>\$ 20,860,453</u>	<u>\$ 18,423,899</u>
Property Tax Rate										
	21.121%	21.883%	21.293%	20.880%	20.993%	21.499%	23.045%	24.990%	27.931%	30.237%
Referendum Market Values										
Beltrami County	\$ 2,036,184,585	\$ 2,011,066,868	\$ 2,010,513,459	\$ 1,939,767,425	\$ 1,929,380,345	\$ 1,925,650,921	\$ 1,838,553,655	\$ 1,702,738,595	\$ 1,455,618,295	\$ 1,284,626,487
Hubbard County	219,091,135	209,651,955	209,981,645	198,776,950	208,294,180	224,374,220	213,065,100	182,281,101	161,103,300	137,755,102
Total Referendum Market Values	<u>\$ 2,255,275,720</u>	<u>\$ 2,220,718,823</u>	<u>\$ 2,220,495,104</u>	<u>\$ 2,138,544,375</u>	<u>\$ 2,137,674,525</u>	<u>\$ 2,150,025,141</u>	<u>\$ 2,051,618,755</u>	<u>\$ 1,885,019,696</u>	<u>\$ 1,616,721,595</u>	<u>\$ 1,422,381,589</u>
Referendum Rate										
	0.09914%	0.12566%	0.12401%	0.12790%	0.12804%	0.12137%	0.11538%	0.10916%	0.11040%	0.09946%

Students Served (Weighted ADM's)										
Residents	6,387.40	6,276.61	6,219.74	6,104.63	6,030.05	5,859.57	5,911.40	5,916.96	5,914.56	5,939.23
Nonresidents in District										
Tuition	68.90	75.52	75.18	64.80	80.36	82.14	82.41	122.70	127.12	150.48
Enrollment Options	333.15	348.44	316.04	347.14	309.93	280.02	236.68	245.72	222.65	213.44
Ineligible	0.01	0.08	3.10	2.40	1.53	0.65	0.60	0.62	3.53	2.22
Shared Aid	13.48	12.23	9.00	7.91	8.47	9.27	14.39	12.51	12.72	14.46
Shared Time Tuition	-	0.26	0.13	0.20	0.10	0.11	0.21	-	-	-
Adults	-	-	-	-	-	6.54	-	-	-	-
Residents Outside District										
Tuition	(21.65)	(28.21)	(22.90)	(16.59)	(20.18)	(27.21)	(24.59)	(35.38)	(33.19)	(27.15)
Charter	(528.32)	(482.83)	(448.18)	(443.20)	(430.80)	(442.59)	(428.10)	(433.15)	(398.82)	(414.37)
Enrollment Options	(402.42)	(379.00)	(426.07)	(411.11)	(382.28)	(363.27)	(341.11)	(369.75)	(397.26)	(402.28)
Total Students Served	<u>5,850.55</u>	<u>5,823.10</u>	<u>5,726.04</u>	<u>5,656.18</u>	<u>5,597.18</u>	<u>5,405.23</u>	<u>5,451.89</u>	<u>5,460.23</u>	<u>5,451.31</u>	<u>5,476.03</u>
Adjusted Weighted ADM's										
	5,789.81	5,763.22	5,661.53	5,597.46	5,526.90	5,333.73	5,378.87	5,359.78	5,341.13	5,336.02
Resident ADM's										
	5,578.91	5,461.95	5,410.83	5,319.43	5,238.58	5,101.45	5,104.55	5,108.15	5,101.53	5,121.77



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2014.

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

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

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

Miller McDonald, Inc.

December 22, 2014
 Bemidji, Minnesota



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Independent School District No. 31 – Bemidji, Minnesota's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

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

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

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

Independent School District No. 31
Bemidji, Minnesota

Compliance and Other Matters

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

Purpose of this Report

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

Miller McDonald, Inc.

December 22, 2014
Bemidji, Minnesota



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

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 31 – Bemidji, Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 31 – Bemidji, Minnesota's major federal programs for the year ended June 30, 2014. Independent School District No. 31 – Bemidji, Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Programs

In our opinion, Independent School District No. 31 – Bemidji, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Miller McDonald, Inc.

December 22, 2014
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

I. SUMMARY OF AUDITOR'S RESULTS

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

Title VII Indian Education	CFDA No. 84.060
Title I Cluster - Grants to Local Education Agencies	CFDA No. 84.010
Special Education Cluster:	
Special Education Part B Sec 611 Regular Allocation	CFDA No. 84.027
Part B-Coordinated Early Intervening Services	CFDA No. 84.027
CIMP	CFDA No. 84.027
IDEA Part B – Discretionary Low Incidence	CFDA No. 84.027
Special Education – Part B Section 619 Preschool Regular	CFDA No. 84.173
- 8.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 qualified as a low-risk auditee.

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

INTERNAL CONTROL

None

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

COMPLIANCE

Items Arising This Year

None

Previously Reported Item Resolved During the Year

Internal Control

Finding 2012-1 – Indian Elementary and Secondary School Assistance Grant, CFDA 84.060 – Inadequate Support of Salaries and Wages.

Condition

The District did not compile adequate and proper documentation in support of wages and benefits paid to employees working under the Indian Elementary and Secondary School Assistance federal award program (CFDA 84.060). In accordance with OMB Circular 2 CFR, Part 225, Attachment B, paragraph 8 (h), depending on whether an employee works on a single Federal award or multiple awards, salaries and wages must be supported by either periodic certifications or personnel activity reports or equivalent documentation.

Resolution

The District compiled adequate and proper documentation in support of wages and benefits paid to employees working under the Indian Elementary and Secondary School Assistance federal award program.

Questioned Costs

None