

WATERTOWN SCHOOL DISTRICT NO. 14-4
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2014

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

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

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, the business-type activities, each major fund and the aggregate remaining fund information of the Watertown School District No. 14-4 ("District"), as of June 30, 2014, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 9, 2015, which was qualified for the governmental activities and the aggregate remaining fund information, because we were not engaged to, and we did not, audit the financial statements of the Northeast Technical High School, the Lake Area Technical Institute Foundation and the Arrow Education Foundation.

Internal Control Over Financial Reporting

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2014-01 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2014-02.

School District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

Vilhauer Raul & Snyder P.C.

Watertown, South Dakota
February 9, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Watertown School District No. 14-4's ("District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

In our opinion, the Watertown School District No. 14-4 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Purpose of this Report

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 purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Vilhauer Raul & Snyder P.C.

Watertown, South Dakota
February 9, 2015

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2014

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

- a. An unmodified opinion was issued on the financial statements of the business-type activities and each major fund. A qualified opinion was issued on the governmental activities and the aggregate remaining fund information, because we were not engaged to, and we did not audit the financial statements of the Northeast Technical High School, the Lake Area Technical Institute Foundation and the Arrow Education Foundation.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties as discussed in finding number 2014-01. The significant deficiency applied only to the financial statements.
- c. Our audit disclosed an instance of noncompliance as discussed in finding number 2014-02.

Federal Awards

- d. An unmodified opinion was issued on compliance with requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- f. The federal awards tested as major programs were:
 1. Student Financial Assistance Programs Cluster
 - a. 84.007 Federal Supplemental Educational Opportunity Grants
 - b. 84.033 Federal Work Study Program
 - c. 84.038 Federal Perkins Loan Program
 - d. 84.063 Federal Pell Grant Program
 - e. 84.268 Federal Direct Student Loans
 2. 17.282 Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants
 3. 84.010 Title I Grants to Local Educational Agencies
 4. 84.011 Migrant Education - State Grant Program
 5. Special Education Cluster
 - a. 84.027 Special Education - Grants to States
 - b. 84.173 Special Education - Pre-school Grants
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- h. Watertown School District No. 14-4 did not qualify as a low-risk auditee.

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Findings:

Internal Control-Related Finding - Significant Deficiencies:

Finding # 2014-01

Condition and Criteria: A significant deficiency was reported for a lack of segregation of duties for the revenue, expenditure and payroll functions. This finding has been noted since fiscal year ended June 30, 1991.

Effect: The possible asserted effect of this condition is the misappropriation of assets.

Cause: The limited staff size of the District's business office does not allow for proper oversight.

Recommendation: We recommend management continue to monitor its delegation of duties and segregate sensitive functions as much as possible.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2014

Current Other Audit Findings (Continued):

Corrective Action Plan: Rick Hohn, Business Manager, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.

Other Compliance - Related Audit Findings

Finding # 2014-02

Condition and Criteria: The District over-expended the budget for the Drivers Education Fund for the year ended June 30, 2014. According to South Dakota Codified Law 13-11-2, districts are not allowed to exceed the budgeted appropriations of each fund for the fiscal year.

Effect: The District is not in compliance with state statute.

Cause: Despite having revenues in excess of budgeted amounts, the District did not adequately budget for the increase in expenditures in the Drivers Education Fund.

Recommendation: We recommend the District evaluate compliance with the budget prior to year end and make any amendments as considered necessary.

Corrective Action Plan: The governing board plans to monitor these expenditures to prevent future overdrafts and make amendments as considered necessary.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2014

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

1991-03

A significant deficiency was reported for a lack of segregation of duties for the revenue, expenditure and payroll functions. This finding is restated in the current other audit findings as 2014-01.

2013-02

The former District's Benefits Coordinator was indicted and plead guilty to one count of grand theft embezzlement of property in excess of \$100,000. The District's insurance provider has reimbursed the District for the entire loss less the \$1,000 deductible. The District sought and was awarded restitution in relation to costs incurred in validating the embezzlement loss. Therefore, this finding has been corrected for the year ended June 30, 2014.

INDEPENDENT AUDITOR'S REPORT

To the School Board
Watertown School District No. 14-4
Watertown, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Watertown School District No. 14-4 ("District"), 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

The District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The financial statements of Northeast Technical High School ("NETH"), have not been audited, and we were not engaged to audit the NETH's financial statements as part of our audit of the District's basic financial statements as of June 30, 2014. The NETH's financial activities, which represent less than one percent of the assets, net position and revenues of the District's governmental activities, reflect information as of June 30, 2013, due to the fact that the June 30, 2014, information was unaudited and unavailable as of the audit report date.

The financial statements of Lake Area Technical Institute Foundation and Arrow Education Foundation have not been audited, and we were not engaged to audit the Lake Area Technical Institute Foundation's and Arrow Education Foundation's financial statements as part of our audit of the District's basic financial statements. The financial activities of Lake Area Technical Institute Foundation and Arrow Education Foundation represent less than six percent of the assets, net position and revenues of the District's governmental activities and less than forty one percent of the assets, fund balances and revenues of the aggregate remaining fund information. These financial activities are included in the District's financial statements as blended component units on the combining balance sheet and combining statement of revenues, expenditures and changes in fund balances for nonmajor governmental funds. However, the District has omitted the required disclosures related to the investments of the Lake Area Technical Institute Foundation and Arrow Education Foundation.

Qualified Opinion

In our opinion, except for the effects, if any, of the matters discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and aggregate remaining fund information for the District 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.

Unmodified Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules and the Schedule of Funding Progress for Postemployment Benefits on pages 11 through 20 and 49 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the 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 with consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

The Schedule of School District Officials on page 57 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract 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 the District's internal control over financial reporting and compliance.

Vilhauer Raul $\frac{1}{3}$ Snyder P.C.

Watertown, South Dakota
February 9, 2015

Watertown School District No. 14-4
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2013-14

The Administration of the Watertown School District No. 14-4 is providing the following information as required by the GASB 34 regulations. Comparisons to the previous year's financial information are provided throughout this discussion and analysis.

This section of the annual financial report of the Watertown School District No. 14-4 presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2014. This MD&A is to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District continues to maintain an adequate financial position in all major operating funds. The ending fund balance in the General Fund is 25% of expenditures. The fund balance percentage is based on the most current year's total expenditures in the fund being analyzed. The State's Legislature removed the maximum allowable fund balance limitation during the 2011 session. The beginning fund balance of the General Fund on July 1, 2013 was 27% of expenditures. The decrease in the fund balance percentage was anticipated as the budget, as modified, called for the use of cash reserves in the amount of \$502,525. The fund balance decreased by \$205,826, which is lower than the budgeted decrease due to the actual revenue being received was 97% of the budgeted amount and the expenses being 96% of budget. The ending cash position of the General Fund on June 30, 2014, was \$6,827,496 which reflects a slight increase.
- The Capital Outlay Fund's revenue was significantly higher than typical due to the reporting of the sale of Capital Outlay Certificates which generated \$18,427,682 of revenue in support of the costs that will be occurring in relation to the construction of the new Middle School. Due to the time of this Certificate sale and the construction payments, a major portion of these funds have been reserved in the Fund Balance to assist with the on-going construction progress payments. The delay of the major remodel of the current Middle School into an Intermediate School caused the actual expenditures to be well below the anticipated budget. The ending fund balance of this fund on June 30, 2014, is \$20,563,682 of which, approximately \$15,478,432 is reserved for the referenced Middle School construction costs. The use of the fund balance is restricted to the allowable expenses of the Capital Outlay Fund.
- The Special Education Fund ended the fiscal year with a fund balance of \$1,219,872 which reflects an improvement of \$110,296 when compared to the prior year. This increase was not anticipated and is the result of the expenses being significantly under the budget allocation. The ending fund balance, June 30, 2014, fund balance is equal to 26% of the prior year's expenditures, which is over the State's allowable maximum of 25%. Therefore, the District will experience a reduction in State Aid in the amount in excess of that allowed, \$46,066. Considering the requirement to maintain an ending fund balance of no more than 25%, the need to meet the Federal requirements of "Maintenance of Local Effort" and the need to request a local levy in an amount to ensure allowable State funding, creates a challenge in this fund's finances.
- The general operations of the Lake Area Technical Institute reflect expenditures over revenue in the amount of \$354,922. This decrease was caused in large part by the revenue from State and Federal sources being less than expected. Activity in this Fund continues to fluctuate a bit due to the construction and equipment purchases as accommodated by Phase IV – State Bond dollars. The year ending fund balance is \$325,874 which is only 1.5% of the prior year's expenses. The June 30, 2014 cash balance of \$2,977,865 is somewhat deceiving due to the fact an inter-fund loan in the amount of \$1,530,000 remains due at year end along with significant accounts payable.
- Business-type activities had an increase in net position of \$76,417 during the 2013-14 year. This net increase is a direct reflection of the general profit/(loss) of the various business-type funds as follows: Nutrition Services for K-12 - \$104,714, Concessions Operations - (\$31,891), Driver's Education - (\$1,743), Pre-School Services - \$418, LATI Bookstore - \$18,973, LATI Food Service - (\$2,391) and the LATI Educare Center - (\$11,663). It should be noted that the transactions of the Concessions Operations included a transfer out of \$61,300 to the Capital Outlay Fund and the Pre-School Services fund had a transfer in of \$2,000. This net position increase compares to an increase of \$215,159 in the previous year, 2012-13.
- District debt in the area of Capital Outlay Certificates increased in 2013-14 due to the issuance of \$17,445,000 of Certificates in support of the costs associated with the construction of a new Middle School. This amount combined with the re-offering premium paid in the amount of \$982,682 equals the amount noted above as dollars available to support costs of constructing a Middle School. The outstanding balance of the new issue combined with the 2006

issue in support of the McKinley Elementary School brings the year ending Certificate debt balance to \$19,680,000. The District also entered into a lease-purchase for the purchase of laptop computers for High School Students. At year end the balance owed on this lease-purchase was \$1,444,253. Additionally, the District recognizes its Early Retirement Plan obligation as long-term debt and at year end that payable amount is \$667,024. Detailed amortization information is located on page 42 of this audit report.

- These financial statements reflect the inclusion of the LATI Foundation and the Arrow Education Foundation. The reporting is due to the close nature in which the foundations operate to the District. The June 30, 2014, fund balance of the LATI Foundation is \$2,119,039 and the Arrow Education Foundation is \$1,027,887.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management’s discussion and analysis (this section), 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 long-term and short-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
 - Governmental fund statements tell how general District services were financed in short-term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities that the District operates like businesses (Nutrition Services, Arena Concessions, Driver’s Education, Pre-school Services, Bookstore, LATI Food Service and Educare Center). The District’s Self-Funded Insurance Trust and Unemployment Trust are operated as Internal Service Funds.
 - Fiduciary fund statements provide information about the financial activity related to dollars in which the District acts solely as the trustee or agent for the benefit of others to whom the resources belong. Student organization clubs, scholarship accounts and the endowment fund are examples of these types of accounts. Fiduciary funds are custodial in nature and do not involve measurement of results of operations.

The financial statements also include notes that provide further explanation of some of the information in the financial statements and provide additional disclosures so statement users have a complete picture of the District’s financial activities and position. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements by including a comparison of the District’s budget data for the year. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1

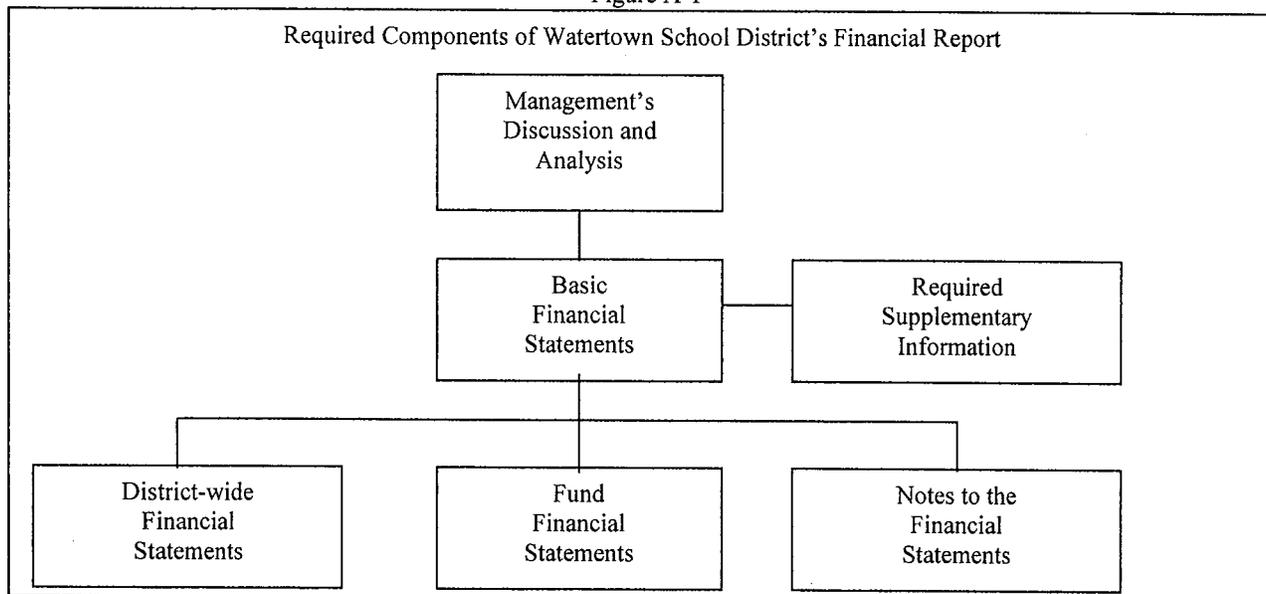


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2
Major Features of the District-wide and Fund Financial Statements

| | District-wide Statements | Fund Financial Statements | | |
|--|--|---|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as General, Special Education and Capital Outlay | Activities the District operates similar to private businesses, such as food service and student services | Instances in which the District administers resources on behalf of someone else, such as student-activities |
| Required financial statements | -Statement of Net Position -Statement of Activities | -Balance Sheet -Statement of Revenues, Expenditures and Changes in Fund Balances | -Balance Sheet -Statement of Revenues, Expenses and Changes in Fund Net Positions -Statement of Cash Flows | -Statement of Fiduciary Net Position -Statement of changes in Fiduciary Net Positions |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and 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 debt included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the District’s funds do not currently contain capital assets although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

District-wide statements report information about the District as a whole, using accounting methods similar to those used by the private sector. The statement of net position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two district-wide statements report the District’s net position and how they have changed. Net positions are the difference between the District’s assets and liabilities and are one way to measure the District’s financial position.

- Over time, increases and decreases in the District’s net positions are an indicator of whether its financial position is improving or deteriorating.
- Additional non-financial factors, such as changes in the District’s property tax base, condition of facilities and equipment, District enrollment trends and changes in the school aid funding formula from the State of South Dakota need to be considered as well.

The District-wide financial statements divide the District's activities into two categories:

- Governmental activities include the District's instructional and support service costs in the following funds: General Fund, Capital Outlay, Special Education, Post Secondary, Financial Aid Fund and non-major governmental funds. Debt service payments and capital equipment purchases are also accounted for in Governmental Activities. The financial support of Governmental Activities is derived mainly through property taxes, State aid, State and Federal grants, and the tuition and fees received by Lake Area Technical Institute.
- Business-type activities are activities in which the District charges fees to assist with the cost of the services being provided. The Nutrition Services, Arena Concessions, Driver's Education, Pre-School Services, Bookstore, LATI Food Service and Day Care Service are Business-type Activities of the District.

Fund financial statements provide more detailed information about the District's individual funds and not the District as a whole. Funds are accounting devices that the District uses to track specific sources of funding and spending for particular purposes.

- Law requires the use of certain funds and other funds are also used by the District to accommodate accounting and tracking of financial activities for varying purposes. The following are some of the funds used by the District and their general purpose.
 - General Fund - general instructional operations of the District
 - Capital Outlay Fund - capital type acquisitions (buildings, equipment & debt retirement)
 - Special Education Fund - costs related to providing instruction and support services to students with special needs
 - Post Secondary Fund - accommodates the operations of Lake Area Technical Institute (LATI)
 - Pension Fund - accounts for the reserve and costs associated with the District's early retirement policy
 - Perkins Fund - accommodates the financial assistance provided by the Federal Government in the form of student loans for the students at LATI
 - Financial Aid Fund - accounts for student loans and college work study as provided by the Federal Government for LATI's students

The District has three types of funds:

- Governmental Funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps 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 with the governmental fund statements that explain the relationship (or differences) between them.

The Watertown School District has designated the General Fund, Capital Outlay Fund, Special Education Fund, Post Secondary Fund and Financial Aid Fund as its major funds. Therefore, information is presented separately for these funds in the balance sheet and the statement of revenues, expenditures and changes in fund balance. Data for other governmental funds is provided in combined form.

- Proprietary Funds - Services for which the District charges users a fee are generally reported in proprietary funds. Proprietary funds are like government-wide statements in that they both provide short and long-term financial information.
 - Enterprise Funds (one type of proprietary fund) are the District's business-type activities reported on the government-wide financial statements and they provide more detail and additional information, such as cash flows.

- Internal Service Funds (the other kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District operates the Self-funded Insurance Trust and the Unemployment Trust as Internal Service Funds.
- Fiduciary Funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity monies and endowment/scholarship proceeds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District's fiduciary activities are reported in a separate statement of position - fiduciary funds. The District excludes 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

Statement of Net Position - The District's combined net positions reflect an increase on June 30, 2014, over that of the prior year. The increase of \$3,125,267 or 6% is illustrated below.

Statement of Net Position

June 30, 2014

| | Governmental | | Business-type | | Total | | Total |
|-------------------------------------|---------------------|---------------------|--------------------|--------------------|---------------------|---------------------|----------------|
| | Activities | | Activities | | | | Percent |
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | Change |
| Current and Other Assets | \$52,522,164 | \$34,249,564 | \$1,839,077 | \$1,711,109 | \$54,361,241 | \$35,960,673 | 51.17% |
| Capital Assets (Net Depreciation) | \$41,643,563 | \$36,087,641 | \$99,935 | \$112,210 | \$41,743,498 | \$36,199,851 | 15.31% |
| Total Assets | \$94,165,727 | \$70,337,205 | \$1,939,012 | \$1,823,319 | \$96,104,739 | \$72,160,524 | 33.18% |
| Long-term Debt Outstanding | \$23,409,253 | \$3,810,217 | \$0 | \$0 | \$23,409,253 | \$3,810,217 | 514.38% |
| Other Liabilities | \$16,899,053 | \$15,718,417 | \$101,065 | \$61,789 | \$17,000,118 | \$15,780,206 | 7.73% |
| Total Liabilities | \$40,308,306 | \$19,528,634 | \$101,065 | \$61,789 | \$40,409,371 | \$19,590,423 | 106.27% |
| Net Position: | | | | | | | |
| Net Investment in Capital Assets | \$35,021,349 | \$33,225,245 | \$99,935 | \$112,210 | \$35,121,284 | \$33,337,455 | 5.35% |
| Restricted | \$12,337,056 | \$11,136,351 | \$0 | \$0 | \$12,337,056 | \$11,136,351 | 10.78% |
| Unrestricted | \$6,499,016 | \$6,446,975 | \$1,738,012 | \$1,649,320 | \$8,237,028 | \$8,096,295 | 1.74% |
| Total Net Position | \$53,857,421 | \$50,808,571 | \$1,837,947 | \$1,761,530 | \$55,695,368 | \$52,570,101 | 5.94% |
| Liabilities and Net Position | \$94,165,727 | \$70,337,205 | \$1,939,012 | \$1,823,319 | \$96,104,739 | \$72,160,524 | 33.18% |

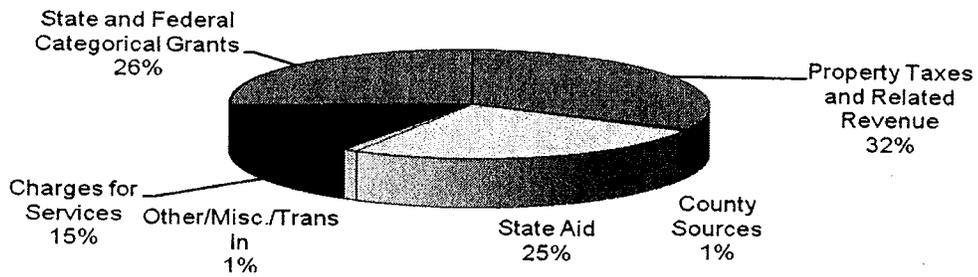
Statement of Changes in Net Position - The District's total revenue of \$70,031,857 is 1% lower than the prior year. In addition to this revenue, the District reported a gain on the disposal of assets in the amount of \$131,250. The revenue derived from charges for services is higher than the typical South Dakota school due to tuition and fees collected at Lake Area Technical Institute. The change in Net Positions related to governmental activities reflects an increase of \$3,048,850 and the business-type activities had an increase of \$76,417.

Changes in Watertown School District's Net Position

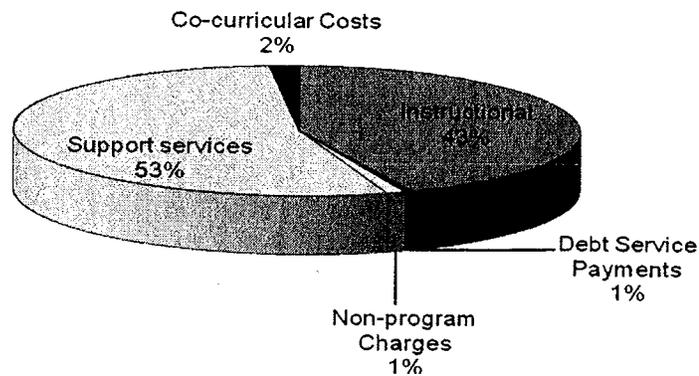
| | Governmental Activities | | Business-type Activities | | Total | | Total Percent Change |
|--|----------------------------|---------------------|-----------------------------|--------------------|---------------------|---------------------|----------------------------|
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | |
| REVENUE: | | | | | | | |
| Program Revenue | | | | | | | |
| Charges for Services | \$10,093,391 | \$9,591,106 | \$3,849,123 | \$3,728,132 | \$13,942,514 | \$13,319,238 | 4.68% |
| State and Federal Operating Grants | \$16,878,917 | \$16,408,253 | \$849,848 | \$825,972 | \$17,728,765 | \$17,234,225 | 2.87% |
| General Revenue | | | | | | | |
| Property Taxes and Related Revenue | \$20,934,195 | \$23,058,223 | \$0 | \$0 | \$20,934,195 | \$23,058,223 | -9.21% |
| Intermediate Sources | \$419,797 | \$430,290 | \$0 | \$0 | \$419,797 | \$430,290 | -2.44% |
| State Aid | \$16,562,667 | \$16,144,765 | \$0 | \$0 | \$16,562,667 | \$16,144,765 | 2.59% |
| Other/Miscellaneous | \$438,488 | \$292,168 | \$5,431 | \$5,774 | \$443,919 | \$297,942 | 49.00% |
| Total Revenue | \$65,327,455 | \$65,924,805 | \$4,704,402 | \$4,559,878 | \$70,031,857 | \$70,484,683 | -0.64% |
| EXPENSES: | | | | | | | |
| Instruction | \$27,107,812 | \$26,470,395 | \$0 | \$0 | \$27,107,812 | \$26,470,395 | 2.41% |
| Support Services | \$33,367,778 | \$35,042,517 | \$0 | \$0 | \$33,367,778 | \$35,042,517 | -4.78% |
| Non-programmed Charges | \$662,806 | \$451,131 | \$0 | \$0 | \$662,806 | \$451,131 | 46.92% |
| Debt Service Payments | \$274,389 | \$87,599 | \$0 | \$0 | \$274,389 | \$87,599 | 213.23% |
| Co-curricular Costs | \$1,056,370 | \$926,070 | \$0 | \$0 | \$1,056,370 | \$926,070 | 14.07% |
| Nutrition/Food/Concessions Services | \$0 | \$0 | \$2,051,970 | \$2,012,643 | \$2,051,970 | \$2,012,643 | 1.95% |
| Student/Support Services | \$0 | \$0 | \$2,516,715 | \$2,304,972 | \$2,516,715 | \$2,304,972 | 9.19% |
| Total Expense | \$62,469,155 | \$62,977,712 | \$4,568,685 | \$4,317,615 | \$67,037,840 | \$67,295,327 | -0.38% |
| Excess (Short Fall) of revenue before special items: | \$2,858,300 | \$2,947,093 | \$135,717 | \$242,263 | \$2,994,017 | \$3,189,356 | -6.12% |
| Special Items | | | | | | | |
| Gain/(Loss) on Disposal of Assets | \$131,250 | (\$22,016) | \$0 | \$0 | \$131,250 | (\$22,016) | 696.16% |
| Transfer In/(Out) | \$59,300 | \$27,104 | (\$59,300) | (\$27,104) | \$0 | \$0 | 0.00% |
| CURRENT YEAR - INCREASE (DECREASE) IN NET POSITION: | \$3,048,850 | \$2,952,181 | \$76,417 | \$215,159 | \$3,125,267 | \$3,167,340 | -1.33% |

The following information illustrates the revenue and expense breakdown of the governmental funds. The graphs demonstrate that the majority of the revenue consists of three main sources: State Aid - 25%, State and Federal Grants - 26% and Property Tax and related revenue - 32%. In comparing these percentages to that of the prior year, it illustrates that the share of revenue being received in relation to State and Federal grants has increased. This is due, in large part, to the grants being received by Lake Area Technical Institute. The total revenue of the governmental funds including the gain on asset disposal and transfers in for 2014 was \$65,518,005 and the total expenses were \$62,469,155 with the majority of the expenses being designated to instructional and support service costs.

Sources of Revenue - 2014 Governmental Funds



Functional Expenses - 2014 Governmental Funds



Governmental Funds - The focus of the Watertown School District's governmental funds is to provide information on current revenues, expenses and balances of available resources. This information is useful in assessing the District's current financial condition and will assist in the assessment of the District's projected financial position. The changes in the reserved and unreserved fund balances serve as a useful measure of the net resources available for spending at the end of the fiscal year.

The District's governmental funds ended the year with combined net position of \$53,857,421. The majority of this amount is reserved for the District's investment in fixed assets - \$35,021,349. The unrestricted amount is \$6,499,016 or 12% of the total net position. The remaining amount, \$12,337,056, is restricted for Capital Outlay, Special Education, Post Secondary, Pension, Perkins, LATI Foundation and Arrow Education Foundation use.

BUDGETARY HIGHLIGHTS – FINANCIAL ANALYSIS OF DISTRICT FUNDS

The School Board was presented with a preliminary budget for their review and consideration on May 13, 2013, as prescribed by state statutes. Following the Board's review, the 2014 operating budget was adopted on July 8, 2013, with a few minor modifications. The Board approved amendments to the budget on January 13, 2014, and June 9, 2014. The budget revisions reflected additional State and Federal grant dollars along with an increase in the anticipated use of cash to accommodate the expenditures. The financial analysis of individual District funds is reflected in the following notes and comments along with supporting information of the major operating funds and business-type activities:

| General Fund: | <u>Budgeted</u> | <u>Actual</u> | <u>Positive/(Negative)</u> | <u>%</u> |
|---------------|---------------------|---------------------|----------------------------|----------|
| Revenue | \$22,194,872 | \$21,531,958 | (\$662,914) | 97.0% |
| Expenses | <u>\$22,697,397</u> | <u>\$21,737,784</u> | <u>\$959,613</u> | 95.8% |
| | <u>(\$502,525)</u> | <u>(\$205,826)</u> | <u>\$296,699</u> | |

Both the revenue and expenditures of the General Fund were very near the anticipated amounts. The budget called for a use of cash reserves in the amount of \$502,525 with actual 2013-14 transactions ending with the expenditures exceeding the revenue by \$205,826. The expenditures were under the budgeted amount in nearly all categories. The June 30, 2014, ending fund balance of the General Fund was \$5,471,328. The District has been conservative in its spending and thus as typical; the District spent 96% of its budgeted allocation. Approximately 89% of the total expenses are in the areas of salary and benefits. Therefore, it remains important that the District continue its review of staffing annually.

| Capital Outlay: | <u>Budgeted</u> | <u>Actual</u> | <u>Positive/(Negative)</u> | <u>%</u> |
|-----------------|---------------------|---------------------|----------------------------|----------|
| Revenue | \$23,651,440 | \$25,861,345 | \$2,209,905 | 100.9% |
| Expenses | <u>\$10,081,030</u> | <u>\$9,736,772</u> | <u>\$344,258</u> | 96.6% |
| | <u>\$13,570,410</u> | <u>\$16,124,573</u> | <u>\$2,554,163</u> | |

The 2013-14 budget called for an increase in cash reserves in the amount of \$13,570,410 as a direct result of the sale of Capital Outlay Certificates and the reserving of a major portion of these dollars to assist with the costs of the Middle School project in the years of 2015 and 2016. The actual expenditures were lower than anticipated due to the postponement of the remodeling of the existing Middle School to an Intermediate School and payments for the construction of the new Middle School being lower than expected. The ending fund balance of this fund on June 30, 2014, is \$20,563,682 of which, approximately \$15,478,432 is reserved for the referenced Middle School construction costs. It is also expected that the cost of the postponed remodel project will be covered, in large part by, cash reserves.

| Special Education: | <u>Budgeted</u> | <u>Actual</u> | <u>Positive/(Negative)</u> | <u>%</u> |
|--------------------|--------------------|--------------------|----------------------------|----------|
| Revenue | \$5,220,283 | \$4,810,738 | (\$409,545) | 92.0% |
| Expenses | <u>\$5,452,278</u> | <u>\$4,700,442</u> | <u>\$751,836</u> | 86.2% |
| | <u>(\$231,995)</u> | <u>\$110,296</u> | <u>\$342,291</u> | |

The Special Education revenue was not as close to the budget projections as in previous years due to the Federal revenue being significantly under the budgeted amount. The expenses were also lower than projections in nearly every category and were approximately 86% of the budgeted amount. This fund experienced an unexpected financial gain in the amount of \$110,296, which generated an ending fund balance of \$1,219,872. The fund balance is 26% of the previous year's expenditure amount which is slightly higher than the maximum amount allowed, causing a reduction in the calculated 2014-15 State Aide.

| | | | | |
|----------------------|----------------------|--------------------|----------------------------|----------|
| LATI-Post Secondary: | <u>Budgeted</u> | <u>Actual</u> | <u>Positive/(Negative)</u> | <u>%</u> |
| Revenue | \$22,086,336 | \$21,018,889 | (\$1,067,447) | 95.2% |
| Expenses | \$23,557,396 | \$21,373,811 | \$2,183,585 | 90.7% |
| | <u>(\$1,471,060)</u> | <u>(\$354,922)</u> | <u>\$1,116,138</u> | |

The financial activity of the LATI-Post Secondary Fund is still feeling the effects of construction projects and major repair/remodel projects, both past and present. The increase in Federal grants has also impacted this fund's financial activity. The expenditures exceeding the revenue by \$354,922 lowered this Fund's ending fund balance to \$325,874.

| | | | | |
|---------------------|-----------------|---------------|----------------------------|----------|
| LATI-Financial Aid: | <u>Budgeted</u> | <u>Actual</u> | <u>Positive/(Negative)</u> | <u>%</u> |
| Revenue | \$11,585,000 | \$10,573,640 | (\$1,011,360) | 91.2% |
| Expenses | \$11,585,000 | \$10,573,640 | \$1,011,360 | 91.2% |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | |

The LATI-Financial Aid Fund was first considered a major fund in 2011 due to its increased activity related to the distribution and recording of Direct Student Loans. This Fund accounts for the student financial aid provided to the students attending Lake Area Technical Institute.

Other Funds - As noted earlier, the District's Business-type/Proprietary Funds show an increase in Net Position in the amount of \$76,417. The District has two Internal Service Funds. The Self-funded Insurance Trust reflected virtually all of the activity. The other Internal Service Fund is the Unemployment Trust Fund. Combined activity of these Internal Service Funds reflects a net increase in Net Positions in the amount of \$540,055.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets - The School Board has established its capitalization policy with the value of equipment to be listed at \$5,000 and building improvements at \$25,000. The changes in the Capital Assets of the District were caused by several different factors: purchases, disposals and current year depreciation.

| | <u>June 30, 2013</u> | <u>June 30, 2014</u> | <u>Change in Value</u> |
|--------------------------|----------------------|----------------------|------------------------|
| Governmental Activities | | | |
| Purchase Value | \$69,077,320 | \$75,537,564 | \$6,460,244 |
| Accumulated Depr. | \$32,989,679 | \$33,894,001 | \$904,322 |
| Value-Net Depreciation | <u>\$36,087,641</u> | <u>\$41,643,563</u> | <u>\$5,555,922</u> |
| Business-type Activities | | | |
| Purchase Value | \$302,838 | \$302,838 | \$0 |
| Accumulated Depr. | \$190,628 | \$202,903 | \$12,275 |
| Value-Net Depreciation | <u>\$112,210</u> | <u>\$99,935</u> | <u>(\$12,275)</u> |

A complete breakdown of the District's capital assets and related depreciation can be found on pages 41 of the 2014 Audit Report.

Long-term Debt - The District significantly increased its existing long-term debt due to the issuing of Capital Outlay Certificates in the amount of \$17,445,000 to support the costs of the construction of a new Middle School. The final amortized principal payment on the refunded Series 2009 Issue was made in the amount of \$445,000 along with the scheduled amortized principal payment related to the refunded Series 2011 Capital Outlay Certificates in the amount of \$155,000. The long-term debt was also increased by the District entering into a lease purchase agreement in relation to the purchase of laptop computers. The outstanding principal amount of this lease purchase agreement was \$1,444,253 on June 30, 2014. Early Retirement Benefit payments in the amount of \$453,201 were made in 2013-14 along with the approval of Early Retirement Applications totaling \$662,805 of additional liability. Considering the above activity and the unamortized premium in relation to the Capital Outlay Certificate Series 2014, the District's long-term debt increased by \$19,481,539, bringing the outstanding balance to \$22,773,959 as of June 30, 2014. A complete breakdown of the District's long-term debt can be found on page 42 of the 2014 Audit Report.

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

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

- The District experienced an increase in the assessed value of the District in the amount of \$116,260,561 or 6.8%, to a value of \$1,815,862,431. The Capital Outlay Fund and the Pension Fund will benefit from this increase in value. The manner in which the state aid formulas calculate State support for the General Fund and the Special Education Fund eliminates the benefit of increased value for these funds. The State Legislature annually sets the maximum tax levy amounts the District can request in all taxing funds except the Debt Service Fund, which is established by an approved resolution voted upon by district patrons.
- The state aid formula for the General Fund is based on the District's current fall enrollment or the two-year average of the past two year's fall enrollment, whichever is greater, and the Special Education Fund is based on the number of special needs students being served in various need categories. The District's fall enrollment of 3,913 will be used in the calculation of the 2014-15 general state aid. This is an increase of 56 students when compared to the enrollment used in the 2013-14 State Aid calculations. The 2014-15 per student allocation used in the general state aid calculation is \$4,781.14, which is an increase of \$155.49 or 3.4% from the previous year. The special education aid is calculated very similar with the use of six different student categories, each having a varying value assigned to the category. Once again, the calculated student need of both the General Fund and the Special Education Fund is accommodated by the amount that can be generated locally through property taxes and state support. The basic formula is as follows: calculated student need amount, less the amount raised locally through property taxes, equals the amount of state support. Therefore, the District does not receive the financial advantage of increased assessed value in the General Fund or Special Education Fund.
- Construction of a new Middle School, which will accommodate grades 7 and 8, has a contracted completion date of August 1, 2015. This project is well underway and is approximately 55% complete. This facility is located just north of the 11th Street and 14th Avenue north intersection and is estimated to cost \$18,255,302, which includes construction, professional services and site development. The reported capital assets as of June 30, 2014 include construction in progress in the amount of \$2,836,870 in relation to this project.
- The School Board has authorized the development of plans and specifications in relation to the remodeling of the existing Middle School into an Intermediate School. It is anticipated that this facility will be vacated during the 2015-16 school year to allow for the major remodel. The expected construction calendar is September 2015 through June 2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of the Watertown School District with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please feel free to contact the Watertown School District's Business Office, P.O. Box 730, Watertown, SD 57201.

WATERTOWN SCHOOL DISTRICT NO. 14-4

STATEMENT OF NET POSITION
June 30, 2014

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 22,543,172 | \$ 1,194,376 | \$ 23,737,548 |
| Certificates of Deposit | 15,202,100 | - | 15,202,100 |
| Investments, at Fair Value | 2,718,402 | - | 2,718,402 |
| Taxes Receivable | 8,705,904 | - | 8,705,904 |
| Internal Balances | (15,076) | 15,076 | - |
| Accounts Receivable, Net | 202,274 | 268,352 | 470,626 |
| Student Loans Receivable | 880,990 | - | 880,990 |
| Tuition Receivable | 99,303 | - | 99,303 |
| Inventories | 190,558 | 323,904 | 514,462 |
| Other Assets | - | 35,458 | 35,458 |
| Due from (to) External Parties | 4,484 | - | 4,484 |
| Due from Other Governments | 1,990,053 | 1,911 | 1,991,964 |
| Capital Assets: | | | |
| Land, Construction in Progress and Investment in Joint Venture | 9,296,394 | - | 9,296,394 |
| Other Capital Assets, Net of Depreciation | 32,347,169 | 99,935 | 32,447,104 |
| TOTAL ASSETS | \$ 94,165,727 | \$ 1,939,012 | \$ 96,104,739 |
| LIABILITIES | | | |
| Accounts Payable | \$ 3,332,971 | \$ 61,502 | \$ 3,394,473 |
| Other Current Liabilities | 4,208,249 | 39,563 | 4,247,812 |
| Accrued Interest on Long-Term Debt | 106,090 | - | 106,090 |
| Long-Term Liabilities: | | | |
| Due within one Year | 1,648,920 | - | 1,648,920 |
| Due in more than one Year | 21,760,333 | - | 21,760,333 |
| TOTAL LIABILITIES | 31,056,563 | 101,065 | 31,157,628 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Taxes Levied for Future Period | 8,889,861 | - | 8,889,861 |
| Other Deferred Inflows of Resources | 361,882 | - | 361,882 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 9,251,743 | - | 9,251,743 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 35,021,349 | 99,935 | 35,121,284 |
| Restricted for: | | | |
| Capital Outlay | 4,972,870 | - | 4,972,870 |
| Special Education | 1,219,872 | - | 1,219,872 |
| Post Secondary | 325,874 | - | 325,874 |
| Pension | 1,592,880 | - | 1,592,880 |
| Perkins | 1,078,634 | - | 1,078,634 |
| LATI Foundation | 2,119,039 | - | 2,119,039 |
| Arrow Education Foundation | 1,027,887 | - | 1,027,887 |
| Unrestricted | 6,499,016 | 1,738,012 | 8,237,028 |
| TOTAL NET POSITION | \$ 53,857,421 | \$ 1,837,947 | \$ 55,695,368 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | Total |
|---|----------------------|-------------------------|--|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-Type Activities | |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| Instruction | \$ 27,107,812 | \$ 8,535,547 | \$ 15,968,621 | \$ 977,418 | \$ (1,626,226) | \$ - | \$ (1,626,226) |
| Support Services | 33,216,136 | 1,340,563 | 910,296 | 2,391,939 | (28,573,338) | - | (28,573,338) |
| Community Services | 39,472 | - | - | - | (39,472) | - | (39,472) |
| Cocurricular Activities | 1,056,370 | 105,111 | - | 49,770 | (901,489) | - | (901,489) |
| Nonprogrammed Charges | 662,806 | - | - | - | (662,806) | - | (662,806) |
| Interest and Fees on Long-Term Debt * | 274,389 | - | - | - | (274,389) | - | (274,389) |
| Total Governmental Activities | 62,356,985 | 9,981,221 | 16,878,917 | 3,419,127 | (32,077,720) | - | (32,077,720) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Food Services | 2,051,970 | 1,388,877 | 791,013 | - | - | 127,920 | 127,920 |
| Student Services | 2,159,549 | 2,177,376 | - | - | - | 17,827 | 17,827 |
| Daycare and Pre-school Services | 320,124 | 247,571 | 58,835 | - | - | (13,718) | (13,718) |
| Drivers Education | 37,042 | 35,299 | - | - | - | (1,743) | (1,743) |
| Total Business-Type Activities | 4,568,685 | 3,849,123 | 849,848 | - | - | 130,286 | 130,286 |
| Total Primary Government | \$ 66,925,670 | \$ 13,830,344 | \$ 17,728,765 | \$ 3,419,127 | (32,077,720) | 130,286 | (31,947,434) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes | | | | | 17,122,791 | - | 17,122,791 |
| Gross Receipts Taxes | | | | | 392,277 | - | 392,277 |
| Revenue From State Sources: | | | | | | | |
| State Aid | | | | | 16,562,667 | - | 16,562,667 |
| Revenue From Intermediate Sources | | | | | 419,797 | - | 419,797 |
| Investment Earnings | | | | | 438,488 | 5,431 | 443,919 |
| Gain on Disposal of Assets | | | | | 131,250 | - | 131,250 |
| Transfers In (Out) | | | | | 59,300 | (59,300) | - |
| Total General Revenues and Transfers | | | | | 35,126,570 | (53,869) | 35,072,701 |
| CHANGE IN NET POSITION | | | | | 3,048,850 | 76,417 | 3,125,267 |
| NET POSITION, BEGINNING | | | | | 50,808,571 | 1,761,530 | 52,570,101 |
| NET POSITION, ENDING | | | | | \$ 53,857,421 | \$ 1,837,947 | \$ 55,695,368 |

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

| | General Fund | Capital Outlay Fund | Special Education Fund | Post Secondary Fund | Financial Aid Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|------------------------|---------------------|--------------------|--------------------------|--------------------------|
| ASSETS | | | | | | | |
| Cash and Cash Equivalents | \$ 6,827,496 | \$ 5,469,594 | \$ 1,783,449 | \$ 2,977,865 | \$ 41,737 | \$ 2,273,551 | \$ 19,373,692 |
| Certificates of Deposit | - | 15,202,100 | - | - | - | - | 15,202,100 |
| Investments, at Fair Value | - | - | - | - | - | 2,718,402 | 2,718,402 |
| Taxes Receivable, Current | 4,569,451 | 2,464,646 | 1,278,556 | - | - | 247,027 | 8,559,680 |
| Taxes Receivable, Delinquent | 93,898 | 35,481 | 16,845 | - | - | - | 146,224 |
| Accounts Receivable, Net | 74,970 | - | 11,764 | 28,339 | 44 | 85,790 | 200,907 |
| Advances to Other Funds | - | - | - | 5,500 | - | - | 5,500 |
| Due from Other Funds | 68,580 | 1,300,000 | - | 935 | - | - | 1,369,515 |
| Due from Other Governments | 851,422 | 4,609 | - | 1,134,022 | - | - | 1,990,053 |
| Accrued Interest Receivable | - | 1,367 | - | - | - | - | 1,367 |
| Student Loans Receivable | - | - | - | - | - | 880,990 | 880,990 |
| Tuition Receivable | - | - | - | 99,303 | - | - | 99,303 |
| Inventory - Supplies | 153,918 | - | - | 33,567 | - | 3,073 | 190,558 |
| TOTAL ASSETS | \$ 12,639,735 | \$ 24,477,797 | \$ 3,090,614 | \$ 4,279,531 | \$ 41,781 | \$ 6,208,833 | \$ 50,738,291 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable | \$ 279,645 | \$ 1,395,746 | \$ 120,782 | \$ 1,364,002 | \$ 36,281 | \$ 136,515 | \$ 3,332,971 |
| Contracts Payable | 1,544,359 | - | 343,207 | 705,301 | - | - | 2,592,867 |
| Payroll Deductions, Withholdings and Employer Matching Payable | 431,736 | - | 102,854 | 195,195 | - | - | 729,785 |
| Due to Other Funds | 90 | 18,242 | 8,498 | 1,578,134 | - | 5,222 | 1,610,186 |
| Advance from Other Funds | - | - | - | - | 5,500 | - | 5,500 |
| Total Liabilities | 2,255,830 | 1,413,988 | 575,341 | 3,842,632 | 41,781 | 141,737 | 8,271,309 |
| Deferred Inflows of Resources: | | | | | | | |
| Taxes Levied for Future Period | 4,569,451 | 2,464,646 | 1,278,556 | - | - | 247,027 | 8,559,680 |
| Unavailable Revenue - Property Taxes | 93,898 | 35,481 | 16,845 | - | - | - | 146,224 |
| Other Deferred Inflows of Resources | 249,228 | - | - | 111,025 | - | 1,629 | 361,882 |
| Total Deferred Inflows of Resources | 4,912,577 | 2,500,127 | 1,295,401 | 111,025 | - | 248,656 | 9,067,786 |
| Fund Balances: | | | | | | | |
| Nonspendable - Inventory | 153,918 | - | - | 33,567 | - | 3,073 | 190,558 |
| Nonspendable - Advances | - | - | - | 5,500 | - | - | 5,500 |
| Restricted - Capital Outlay | - | 20,563,682 | - | - | - | - | 20,563,682 |
| Restricted - Special Education | - | - | 1,219,872 | - | - | - | 1,219,872 |
| Restricted - Post Secondary | - | - | - | 286,807 | - | - | 286,807 |
| Restricted - Pension | - | - | - | - | - | 1,592,880 | 1,592,880 |
| Restricted - Perkins | - | - | - | - | - | 1,078,634 | 1,078,634 |
| Restricted - LATI Foundation | - | - | - | - | - | 2,119,039 | 2,119,039 |
| Restricted - Arrow Education Foundation | - | - | - | - | - | 1,024,814 | 1,024,814 |
| Assigned - Next Year's Budget | 1,286,777 | - | - | - | - | - | 1,286,777 |
| Unassigned | 4,030,633 | - | - | - | - | - | 4,030,633 |
| Total Fund Balances | 5,471,328 | 20,563,682 | 1,219,872 | 325,874 | - | 5,818,440 | 33,399,196 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 12,639,735 | \$ 24,477,797 | \$ 3,090,614 | \$ 4,279,531 | \$ 41,781 | \$ 6,208,833 | \$ 50,738,291 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION**

June 30, 2014

| | |
|---|----------------------------------|
| Total Fund Balances - Governmental Funds | \$ 33,399,196 |
| 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 in the governmental funds. The cost of the assets is \$75,537,564 and the accumulated depreciation is \$33,894,001. | 41,643,563 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | |
| Capital outlay certificates | (19,680,000) |
| Unamortized premium on certificates | (982,682) |
| Lease payable | (1,444,253) |
| Early retirement benefits payable | (667,024) |
| Other postemployment benefits | (635,294) |
| Accrued interest on long-term debt. | (106,090) |
| Property tax revenue recorded in the fund statements exceeded delinquent tax revenue accrued on the District-wide statements. | (183,957) |
| Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. | 2,513,962 |
| <hr/> Net Position - Governmental Activities | <hr/> \$ 53,857,421 <hr/> |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | General Fund | Capital Outlay Fund | Special Education Fund | Post Secondary Fund | Financial Aid Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|---------------------|------------------------|---------------------|--------------------|--------------------------|--------------------------|
| REVENUES | | | | | | | |
| Revenue from Local Sources: | | | | | | | |
| Taxes: | | | | | | | |
| Ad Valorem Taxes | \$ 9,045,209 | \$ 4,964,832 | \$ 2,460,476 | \$ - | \$ - | \$ 496,147 | \$ 16,966,664 |
| Prior Years' Ad Valorem Taxes | 43,894 | 22,236 | 10,407 | - | - | 2,224 | 78,761 |
| Gross Receipts Taxes | 392,277 | - | - | - | - | - | 392,277 |
| Penalties and Interest on Taxes | 17,865 | 9,293 | 4,366 | - | - | 929 | 32,453 |
| Tuition and Fees | 667 | - | 3,029 | 7,783,850 | - | - | 7,787,546 |
| Cocurricular Activities | 96,097 | - | - | - | - | - | 96,097 |
| Other Pupil Activity Income | 9,014 | - | - | 334,049 | - | - | 343,063 |
| Rentals | 161,308 | - | - | - | - | - | 161,308 |
| Contributions and Donations | - | - | - | - | - | 1,665,365 | 1,665,365 |
| Earnings on Investments and Deposits | 25,795 | 19,561 | 5,221 | 12,281 | - | 98,665 | 161,523 |
| Special Events Income | - | - | - | - | - | 204,332 | 204,332 |
| Unrealized Gain on Investments | - | - | - | - | - | 276,965 | 276,965 |
| Other Local Revenue | 384,555 | 45,515 | 57,609 | 644,668 | 36,933 | 3,749 | 1,173,029 |
| Total Revenue from Local Sources | 10,176,681 | 5,061,437 | 2,541,108 | 8,774,848 | 36,933 | 2,748,376 | 29,339,383 |
| Revenue from Intermediate Sources: | | | | | | | |
| County Sources | 411,312 | - | - | - | - | - | 411,312 |
| Revenue in Lieu of Taxes | 8,485 | - | - | - | - | - | 8,485 |
| Total Revenue from Intermediate Sources | 419,797 | - | - | - | - | - | 419,797 |
| Revenue from State Sources: | | | | | | | |
| Grants-in-Aid: | | | | | | | |
| Unrestricted Grants-in-Aid | 8,850,356 | - | - | 6,043,349 | - | - | 14,893,705 |
| Restricted Grants-in-Aid | - | - | 1,668,962 | 3,430,749 | 65,707 | - | 5,165,418 |
| Other State Revenue | 691,059 | - | - | 551,666 | - | - | 1,242,725 |
| Total Revenue from State Sources | 9,541,415 | - | 1,668,962 | 10,025,764 | 65,707 | - | 21,301,848 |
| Revenue from Federal Sources: | | | | | | | |
| Grants-in-Aid: | | | | | | | |
| Restricted Grants-in-Aid | 1,289,872 | - | 600,668 | 2,096,318 | - | - | 3,986,858 |
| Other Federal Revenue | 65,277 | 4,609 | - | - | 10,471,000 | - | 10,540,886 |
| Total Revenue from Federal Sources | 1,355,149 | 4,609 | 600,668 | 2,096,318 | 10,471,000 | - | 14,527,744 |
| Total Revenue | 21,493,042 | 5,066,046 | 4,810,738 | 20,896,930 | 10,573,640 | 2,748,376 | 65,588,772 |
| EXPENDITURES | | | | | | | |
| Instructional Services: | | | | | | | |
| Regular Programs: | | | | | | | |
| Elementary | 6,813,742 | 663,462 | - | - | - | - | 7,477,204 |
| Middle School | 2,163,051 | 41,206 | - | - | - | - | 2,204,257 |
| High School | 3,960,897 | 185,375 | - | - | - | - | 4,146,272 |
| Special Programs: | | | | | | | |
| Gifted and Talented | 155,716 | - | - | - | - | - | 155,716 |
| Programs for Special Education | - | - | 3,327,434 | - | - | - | 3,327,434 |
| Other | 1,172,798 | 15,573 | - | 81,856 | - | - | 1,270,227 |
| Post Secondary Occupational Programs | - | - | - | 7,835,892 | - | - | 7,835,892 |
| Total Instructional Services | 14,266,204 | 905,616 | 3,327,434 | 7,917,748 | - | - | 26,417,002 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | General Fund | Capital Outlay Fund | Special Education Fund | Post Secondary Fund | Financial Aid Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------|------------------------|---------------------|--------------------|--------------------------|--------------------------|
| Support Services: | | | | | | | |
| Pupils: | | | | | | | |
| Attendance and Social Work | 288,787 | - | - | 748,057 | - | - | 1,036,844 |
| Health | 114,695 | - | 149,708 | - | - | - | 264,403 |
| Guidance | 598,112 | - | - | 752,523 | - | - | 1,350,635 |
| Psychological Services | - | - | 135,861 | - | - | - | 135,861 |
| Speech, Pathology and Audiology | - | - | 444,901 | - | - | - | 444,901 |
| Occupational Therapy | - | - | 337,784 | - | - | - | 337,784 |
| Financial Aid | - | - | - | - | 10,573,640 | - | 10,588,855 |
| Library/Media | - | - | - | 147,214 | - | 15,215 | 147,214 |
| Other | - | - | - | 2,572,037 | - | - | 2,572,037 |
| Instructional Staff: | | | | | | | |
| Improvement of Instruction | 219,457 | - | 22,352 | 2,225 | - | - | 244,034 |
| Educational Media | 949,361 | - | 10,000 | 289,859 | - | - | 1,249,220 |
| General Administration: | | | | | | | |
| Board of Education | 68,594 | - | - | 38,374 | - | - | 106,968 |
| Executive Administration | 420,224 | - | - | 57,800 | - | 1,109,279 | 1,587,303 |
| Scholarships Awarded | - | - | - | - | - | 276,344 | 276,344 |
| Program Enhancements | - | - | - | - | - | 130,228 | 130,228 |
| School Administration: | | | | | | | |
| Office of the Principal | 1,311,849 | - | - | 542,700 | - | - | 1,854,549 |
| Business: | | | | | | | |
| Fiscal Services | 407,073 | 16,983 | - | 99,725 | - | - | 523,781 |
| Operation and Maintenance of Plant | 1,429,749 | 913,485 | - | 5,173,719 | - | - | 7,516,953 |
| Pupil Transportation | 600,894 | 259,277 | 91,576 | 32,160 | - | - | 983,907 |
| Central: | | | | | | | |
| Staff | 70,997 | - | 7,018 | - | - | - | 78,015 |
| Other Support Services | - | - | - | 639,634 | - | - | 639,634 |
| Special Education: | | | | | | | |
| Administrative Costs | - | - | 168,587 | - | - | - | 168,587 |
| Total Support Services | 6,479,792 | 1,189,745 | 1,367,787 | 11,096,027 | 10,573,640 | 1,531,066 | 32,238,057 |
| Community Services: | | | | | | | |
| Nonpublic School | 39,472 | - | - | - | - | - | 39,472 |
| Total Community Services | 39,472 | - | - | - | - | - | 39,472 |
| Cocurricular Activities: | | | | | | | |
| Male Activities | 225,352 | - | - | - | - | - | 225,352 |
| Female Activities | 196,503 | - | - | - | - | - | 196,503 |
| Combined Activities | 528,461 | 106,054 | - | - | - | - | 634,515 |
| Total Cocurricular Activities | 950,316 | 106,054 | - | - | - | - | 1,056,370 |
| Nonprogrammed Charges: | | | | | | | |
| Early Retirement Payments | - | - | - | 152,683 | - | 300,519 | 453,202 |
| Total Nonprogrammed Charges | - | - | - | 152,683 | - | 300,519 | 453,202 |
| Debt Services | - | 1,547,008 | - | - | - | - | 1,547,008 |
| Capital Outlays | - | 5,970,155 | - | 2,095,183 | - | - | 8,065,338 |
| Total Expenditures | 21,735,784 | 9,718,578 | 4,695,221 | 21,261,641 | 10,573,640 | 1,831,585 | 69,816,449 |
| EXCESS OF REVENUE OVER (UNDER) EXPENDITURES | (242,742) | (4,652,532) | 115,517 | (364,711) | - | 916,791 | (4,227,677) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Capital Lease Proceeds | - | 2,195,567 | - | - | - | - | 2,195,567 |
| Sale of Certificates | - | 18,427,682 | - | - | - | - | 18,427,682 |
| Sale of Property | 10,279 | 110,750 | - | 9,789 | - | - | 130,818 |
| Transfers In | 28,637 | 61,300 | - | - | - | - | 89,937 |
| Transfers Out | (2,000) | (18,194) | (5,221) | - | - | (5,222) | (30,637) |
| Total Other Financing Sources (Uses) | 36,916 | 20,777,105 | (5,221) | 9,789 | - | (5,222) | 20,813,367 |
| NET CHANGE IN FUND BALANCES | (205,826) | 16,124,573 | 110,296 | (354,922) | - | 911,569 | 16,585,690 |
| FUND BALANCE, BEGINNING | 5,677,154 | 4,439,109 | 1,109,576 | 680,796 | - | 4,906,871 | 16,813,506 |
| FUND BALANCE, ENDING | \$ 5,471,328 | \$ 20,563,682 | \$ 1,219,872 | \$ 325,874 | \$ - | \$ 5,818,440 | \$ 33,399,196 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 16,585,690

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 5,395,849

In the statement of activities, a gain of \$131,250 on disposal of capital assets is reported, whereas, in the governmental funds, the proceeds of \$130,818 from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. 432

Capital contribution of fixed assets. 159,641

The fund financial statement governmental fund property tax accruals differ from the district-wide statement property tax accruals in that the fund financial statements require the amounts to be "available." 44,913

Change in early retirement payable. (209,604)

Change in accrued interest on long-term debt. (78,694)

Current debt principal reduction on long-term debt. 1,351,314

Debt proceeds from new debt. (20,623,249)

Governmental funds do not reflect the change in Other Post Employment Benefits ("OPEB"), but the statement of activities reflects the change in OPEB through expenditures. (117,497)

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue of the internal service funds is reported with governmental activities. 540,055

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ **3,048,850**

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2014

| | Enterprise Funds | | | | | | | | | |
|---|-------------------------|-------------------|------------------------|--------------------------|-------------------|------------------------|-------------------|------------------------|------------------------|--|
| | Nutrition Services Fund | Concessions Fund | Drivers Education Fund | Pre-school Services Fund | Bookstore Fund | LATI Food Service Fund | LATI Daycare Fund | Total Enterprise Funds | Internal Service Funds | |
| ASSETS | | | | | | | | | | |
| Current Assets: | | | | | | | | | | |
| Cash and Cash Equivalents | \$ 657,352 | \$ 117,924 | \$ 6,964 | \$ 1,044 | \$ 202,353 | \$ 89,398 | \$ 119,341 | \$ 1,194,376 | \$ 3,169,480 | |
| Accounts Receivable, Net | - | - | - | - | 243,681 | 3,644 | 21,027 | 268,352 | - | |
| Due from Other Funds | - | - | - | - | 12,891 | 3,651 | - | 16,542 | - | |
| Due from Other Government | - | - | - | - | - | - | 1,911 | 1,911 | - | |
| Inventory of Food, Supplies and Commodities | 30,099 | 1,643 | - | - | - | 17,205 | - | 48,947 | - | |
| Inventory for Resale | - | - | - | - | 274,957 | - | - | 274,957 | - | |
| Prepaid Expenses | - | 1,592 | - | - | 32,866 | 1,000 | - | 35,458 | - | |
| Total Current Assets | 687,451 | 121,159 | 6,964 | 1,044 | 766,748 | 114,898 | 142,279 | 1,840,543 | 3,169,480 | |
| Noncurrent Assets: | | | | | | | | | | |
| Equipment | 236,353 | 5,847 | - | - | 32,797 | 27,841 | - | 302,838 | - | |
| Less Accumulated Depreciation | (173,433) | (682) | - | - | (22,392) | (6,396) | - | (202,903) | - | |
| Total Noncurrent Assets | 62,920 | 5,165 | - | - | 10,405 | 21,445 | - | 99,935 | - | |
| TOTAL ASSETS | \$ 750,371 | \$ 126,324 | \$ 6,964 | \$ 1,044 | \$ 777,153 | \$ 136,343 | \$ 142,279 | \$ 1,940,478 | \$ 3,169,480 | |
| LIABILITIES | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | |
| Accounts Payable | \$ 3,335 | \$ - | \$ 3,231 | \$ - | \$ 44,567 | \$ 7,219 | \$ 3,150 | \$ 61,502 | \$ - | |
| Contracts Payable | 5,065 | 971 | 2,271 | 508 | - | - | - | 8,815 | - | |
| Due to Other Funds | 295 | - | 69 | - | 553 | 74 | 475 | 1,466 | - | |
| Incurred but not Reported Claims | - | - | - | - | - | - | - | - | 655,518 | |
| Payroll Deductions, Withholdings and Employees Matching Payable | 1,303 | 133 | 310 | 118 | - | - | - | 1,864 | - | |
| Deposits Payable | 26,471 | - | - | - | - | - | 2,413 | 28,884 | - | |
| Total Current Liabilities | 36,469 | 1,104 | 5,881 | 626 | 45,120 | 7,293 | 6,038 | 102,531 | 655,518 | |
| NET POSITION | | | | | | | | | | |
| Net Investment in Capital Assets | 62,920 | 5,165 | - | - | 10,405 | 21,445 | - | 99,935 | - | |
| Unrestricted | 650,982 | 120,055 | 1,083 | 418 | 721,628 | 107,605 | 136,241 | 1,738,012 | 2,513,962 | |
| Total Net Position | 713,902 | 125,220 | 1,083 | 418 | 732,033 | 129,050 | 136,241 | 1,837,947 | 2,513,962 | |
| TOTAL LIABILITIES AND NET POSITION | \$ 750,371 | \$ 126,324 | \$ 6,964 | \$ 1,044 | \$ 777,153 | \$ 136,343 | \$ 142,279 | \$ 1,940,478 | \$ 3,169,480 | |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Nutrition Services Fund | Concessions Fund | Drivers Education Fund | Pre-School Services Fund | Bookstore Fund | LATI Food Service Fund | LATI Daycare Fund | Total Enterprise Funds | Internal Service Funds |
|---|-------------------------------|---------------------|------------------------------|--------------------------------|-------------------|------------------------------|-------------------------|------------------------------|---------------------------|
| OPERATING REVENUE | | | | | | | | | |
| Food Sales | \$ 820,147 | \$ 116,940 | \$ - | \$ - | \$ - | \$ 451,790 | \$ 21,985 | \$ 1,410,862 | \$ - |
| Bookstore Sales | - | - | - | - | 2,177,376 | - | - | 2,177,376 | - |
| Daycare Revenue | - | - | - | - | - | - | 223,130 | 223,130 | - |
| Tuition | - | - | 35,299 | 2,456 | - | - | - | 37,755 | - |
| Self-Insurance Premiums | - | - | - | - | - | - | - | - | 5,896,280 |
| Total Operating Revenue | 820,147 | 116,940 | 35,299 | 2,456 | 2,177,376 | 451,790 | 245,115 | 3,849,123 | 5,896,280 |
| OPERATING EXPENSES | | | | | | | | | |
| Salaries | 429,961 | 38,661 | 28,882 | 3,060 | 111,716 | 149,083 | 204,272 | 965,635 | - |
| Employee Benefits | 141,921 | 4,866 | 3,493 | 978 | 36,012 | 38,781 | 72,645 | 298,696 | - |
| Purchased Services | 2,335 | 235 | - | - | 70,964 | 13,104 | 10,933 | 97,571 | - |
| Supplies | 57,479 | 1,749 | 4,667 | - | 5,637 | 19,391 | 7,832 | 96,755 | - |
| Cost of Sales - Purchased Goods | 746,507 | 41,283 | - | - | 1,931,941 | 229,007 | 19,311 | 2,968,049 | - |
| Cost of Sales - Donated Food | 109,800 | - | - | - | - | - | - | 109,800 | - |
| Repairs and Maintenance | 5,180 | - | - | - | - | 2,851 | - | 8,031 | - |
| Miscellaneous | 8,935 | 1,016 | - | - | - | 829 | 1,093 | 11,873 | - |
| Depreciation | 7,004 | 390 | - | - | 3,279 | 1,602 | - | 12,275 | - |
| Unemployment Claims | - | - | - | - | - | - | - | - | 4,142 |
| Self-Insurance Costs | - | - | - | - | - | - | - | - | 5,361,717 |
| Total Operating Expenses | 1,509,122 | 88,200 | 37,042 | 4,038 | 2,159,549 | 454,648 | 316,086 | 4,568,685 | 5,365,859 |
| OPERATING INCOME (LOSS) | (688,975) | 28,740 | (1,743) | (1,582) | 17,827 | (2,858) | (70,971) | (719,562) | 530,421 |
| NONOPERATING REVENUE | | | | | | | | | |
| Local Sources: | | | | | | | | | |
| Interest Earned | 2,676 | 669 | - | - | 1,146 | 467 | 473 | 5,431 | 9,634 |
| State Sources: | | | | | | | | | |
| Cash Reimbursements | 7,606 | - | - | - | - | - | 35,000 | 42,606 | - |
| Federal Sources: | | | | | | | | | |
| Cash Reimbursements | 673,607 | - | - | - | - | - | 23,835 | 697,442 | - |
| Donated Food | 109,800 | - | - | - | - | - | - | 109,800 | - |
| TOTAL NONOPERATING REVENUE | 793,689 | 669 | - | - | 1,146 | 467 | 59,308 | 855,279 | 9,634 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND | 104,714 | 29,409 | (1,743) | (1,582) | 18,973 | (2,391) | (11,663) | 135,717 | 540,055 |
| Transfer In (Out) | - | (61,300) | - | 2,000 | - | - | - | (59,300) | - |
| CHANGE IN NET POSITION | 104,714 | (31,891) | (1,743) | 418 | 18,973 | (2,391) | (11,663) | 76,417 | 540,055 |
| NET POSITION, BEGINNING | 609,188 | 157,111 | 2,826 | - | 713,060 | 131,441 | 147,904 | 1,761,530 | 1,973,907 |
| NET POSITION, ENDING | \$ 713,902 | \$ 125,220 | \$ 1,083 | \$ 418 | \$ 732,033 | \$ 129,050 | \$ 136,241 | \$ 1,837,947 | \$ 2,513,962 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Enterprise Funds | | | | | | | | | Internal Service Funds |
|--|-------------------------------|---------------------|------------------------------|--------------------------------|--------------------|------------------------------|-------------------------|------------------------------|---------------------|---------------------------|
| | Nutrition Services Fund | Concessions Fund | Drivers Education Fund | Pre-school Services Fund | Bookstore Fund | LATI Food Service Fund | LATI Daycare Fund | Total Enterprise Funds | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | | |
| Receipts from Customers | \$ 821,500 | \$ 116,940 | \$ 35,299 | \$ 2,456 | \$ 2,165,196 | \$ 452,807 | \$ 243,007 | \$ 3,837,205 | \$ - | \$ - |
| Receipts (Payments) for Interfund Services Provided | 5,790 | (5,847) | (29,636) | - | (12,595) | (2,774) | (96) | (45,158) | 6,350,224 | - |
| Payments to Suppliers | (818,903) | (46,604) | (3,108) | - | (2,040,550) | (269,091) | (38,536) | (3,216,792) | - | - |
| Payments to Employees | (571,617) | (43,485) | (29,794) | (3,412) | (147,728) | (187,864) | (276,917) | (1,260,817) | - | - |
| Claims and Administrative Expenses Paid | - | - | - | - | - | - | - | - | - | (5,309,748) |
| Net Cash from Operating Activities | (563,230) | 21,004 | (27,239) | (956) | (35,677) | (6,922) | (72,542) | (685,562) | 1,040,476 | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | | | | | |
| Operating Subsidies | 681,213 | - | - | - | - | - | 58,089 | 739,302 | - | - |
| Transfer In (Out) | - | (61,300) | - | 2,000 | - | - | - | (59,300) | - | - |
| Net Cash from Noncapital Financing Activities | 681,213 | (61,300) | - | 2,000 | - | - | 58,089 | 680,002 | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | |
| Interest Earnings | 2,676 | 669 | - | - | 1,146 | 467 | 473 | 5,431 | 9,634 | 9,634 |
| Net Cash from Investing Activities | 2,676 | 669 | - | - | 1,146 | 467 | 473 | 5,431 | 9,634 | 9,634 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 120,659 | (39,627) | (27,239) | 1,044 | (34,531) | (6,455) | (13,980) | (129) | 1,050,110 | |
| CASH AND CASH EQUIVALENTS, BEGINNING | 536,693 | 157,551 | 34,203 | - | 236,884 | 95,853 | 133,321 | 1,194,505 | 2,119,370 | |
| CASH AND CASH EQUIVALENTS, ENDING | \$ 657,352 | \$ 117,924 | \$ 6,964 | \$ 1,044 | \$ 202,353 | \$ 89,398 | \$ 119,341 | \$ 1,194,376 | \$ 3,169,480 | |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES | | | | | | | | | | |
| Operating Income (Loss) | \$ (688,975) | \$ 28,740 | \$ (1,743) | \$ (1,582) | \$ 17,827 | \$ (2,858) | \$ (70,971) | \$ (719,562) | \$ 530,421 | \$ 530,421 |
| Adjustments to Reconcile Operating Income to Net Cash from Operating Activities: | | | | | | | | | | |
| Depreciation Expense | 7,004 | 390 | - | - | 3,279 | 1,602 | - | 12,275 | - | - |
| Cost of Sales - Donated Food | 109,800 | - | - | - | - | - | - | 109,800 | - | - |
| Change in Assets and Liabilities: | | | | | | | | | | |
| (Increase) Decrease in: | | | | | | | | | | |
| Accounts Receivable | - | - | - | - | (12,180) | 1,017 | (2,841) | (14,004) | 453,944 | - |
| Due (to) from Other Funds | 5,790 | (5,847) | (29,636) | - | (12,595) | (2,774) | (96) | (45,158) | - | - |
| Inventories | (1,726) | (729) | - | - | (107,764) | (2,743) | - | (112,962) | - | - |
| Prepaid Expenses | - | (1,592) | - | - | 46,365 | - | - | 44,773 | - | - |
| Increase (Decrease) in: | | | | | | | | | | |
| Accounts Payable | 3,259 | - | 1,559 | - | 29,391 | (1,166) | 633 | 33,676 | 56,111 | - |
| Contracts Payable | 195 | 37 | 2,271 | 508 | - | - | - | 3,011 | - | - |
| Payroll Deductions, Withholding and Employer Matching Payable | 70 | 5 | 310 | 118 | - | - | - | 503 | - | - |
| Deposits Payable | 1,353 | - | - | - | - | - | 733 | 2,086 | - | - |
| NET CASH FROM OPERATING ACTIVITIES | \$ (563,230) | \$ 21,004 | \$ (27,239) | \$ (956) | \$ (35,677) | \$ (6,922) | \$ (72,542) | \$ (685,562) | \$ 1,040,476 | |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | | | | | | | |
| Value of Commodities Received | \$ 109,800 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 109,800 | \$ - | \$ - |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2014

| | Private - Purpose Trust Funds | Agency Funds |
|--|-------------------------------------|-------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 73,088 | \$ 380,851 |
| Accounts Receivable | - | 4,586 |
| Due from Other Funds | 230,000 | 79 |
| TOTAL ASSETS | \$ 303,088 | \$ 385,516 |
| LIABILITIES | | |
| Accounts Payable | \$ - | \$ 18,464 |
| Due to Other Funds | - | 4,484 |
| Amounts Held for Others | - | 362,568 |
| TOTAL LIABILITIES | - | 385,516 |
| NET POSITION | | |
| Restricted for Scholarships: Non-Expendable | 303,088 | - |
| TOTAL LIABILITIES AND NET POSITION | \$ 303,088 | \$ 385,516 |

The accompanying notes are an integral part of this statement.

WATERTOWN SCHOOL DISTRICT NO. 14-4

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

For the Year Ended June 30, 2014

| | Private - Purpose Trust Funds |
|--|--|
| <hr/> | |
| ADDITIONS | |
| Investment Income | \$ 1,304 |
| Total Additions | 1,304 |
| <hr/> | |
| DEDUCTIONS | |
| Distribution to Arrow Education Foundation | 65,340 |
| Scholarships Awarded | 9,070 |
| Total Deductions | 74,410 |
| <hr/> | |
| CHANGE IN NET POSITION | (73,106) |
| NET POSITION, BEGINNING | 376,194 |
| <hr/> | |
| NET POSITION, ENDING | \$ 303,088 |
| <hr/> | |

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of Watertown School District No. 14-4 ("District"), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if its Governing Board appoints a majority of another organization's governing body and it has the ability to impose its will on that organization, or there is potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the District (primary government). The District may also be financially accountable for another organization if that organization is fiscally dependent on the District.

The District has two component units. The Lake Area Technical Institute Foundation ("LATI") is an independent corporation organized for the benefit of Lake Area Technical Institute. The primary focus of the Lake Area Technical Institute Foundation is to raise funds for student scholarships, establish scholarship levels, grant scholarships to students of Lake Area Technical Institute, and support campus improvement projects, marketing efforts, and student, faculty and program enrichment. The Arrow Education Foundation is an independent corporation organized for the benefit of the District. The primary focus of the Arrow Education Foundation is to support the advancement of education through grants for costs associated with classroom activities and new program implementation for the benefit of students and through scholarships. Both Foundations are included in the reporting entity because of the nature and significance of the relationship with the primary government and are blended with nonmajor governmental funds. Both Foundations are unaudited. Separate component unit financial statements may be obtained from the LATI TEC Building and the Garfield Education Center, respectively.

The District participates in a cooperative service unit with eight other districts. See detailed Note 12 entitled Joint Venture for specific disclosures.

Basis of Presentation

District-wide Statements: The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall government, except for fiduciary funds and component units that are fiduciary in nature. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions) and unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements: The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Fund Accounting

The accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting 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, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds of the District are described below within their respective fund types:

Governmental Funds:

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - The Capital Outlay Fund accounts for the resources designated for the lease of or acquisition of land, existing buildings, improvements of grounds, remodeling of buildings or for the purchase of equipment. This is a major fund.

Special Education Fund - The Special Education Fund accounts for all revenues and expenditures associated with the cost of special education for all exceptional children residing within the District. This is a major fund.

Post Secondary Fund - The Post Secondary Fund accounts for all revenues and expenditures associated with operation of Lake Area Technical Institute, a school providing post secondary vocational education programs. This is a major fund.

Financial Aid Fund - The Financial Aid Fund accounts for the activity relating to the Lake Area Technical Institute student financial aid programs. This is a major fund.

Pension Fund - The Pension Fund accounts for all revenues and expenditures associated with the District's early retirement plan. This is not a major fund.

Perkins Loan Fund - The Perkins Loan Fund accounts for loans provided by Lake Area Technical Institute to its students under the Perkins Loan Program. This is not a major fund.

Lake Area Technical Institute Foundation - This is an unaudited component unit. See description in third paragraph. This is not a major fund.

Arrow Education Foundation - This is an unaudited component unit. See description in third paragraph. This is not a major fund.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The District maintained a debt service fund for the Lincoln Refund debt and the general obligation debt was paid in full during the year ended June 30, 2006. The remaining balance of the debt service fund was transferred to the General Fund in fiscal year 2013.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Nutrition Services Fund - The Nutrition Services Fund accounts for the operation of the school lunch and breakfast program. This is a major fund.

Concessions Fund - The Concessions Fund accounts for the operations of the concession program. This is a major fund.

Drivers Education Fund - The Drivers Education Fund accounts for the operations of the drivers education program. This is a major fund.

Pre-school Services Fund - The Pre-school Services Fund accounts for the operations of the pre-school program. This is a major fund.

Bookstore Fund - The Bookstore Fund accounts for the bookstore operations of Lake Area Technical Institute. This is a major fund.

LATI Food Services Fund - The LATI Food Services Fund accounts for the food service operations of Lake Area Technical Institute. This is a major fund.

LATI Daycare Fund - The LATI Daycare Fund accounts for the operations of the daycare facility at Lake Area Technical Institute. This is a major fund.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. The Self-Insurance Fund and the Unemployment Fund are the Internal Service Funds maintained by the District. The Internal Service Funds account for the activities of the District's group health self-insurance and the unemployment claims to other funds on a cost-reimbursement basis.

Fiduciary Funds:

Fiduciary Funds consist of the following sub-categories and are never considered to be major funds.

Agency Funds - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of the results of operations. The District maintains a variety of agency funds. These funds are established to account for the monies earned by the student organizations for various expenditures. The students of these organizations earn the monies recorded in the agency funds and determine the appropriate expenditures based on the purpose of the student organization.

Private-Purpose Trust Funds - Private-Purpose Trust Funds are used to account for all other trust arrangements under which principal and income benefits individuals, private organizations or other governments. The amounts accounted for in the District's private-purpose trust funds include amounts originating from donations for the purpose of paying scholarship monies to students, which are accounted for in the Endowment Fund.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

The aggregate remaining fund information includes the nonmajor governmental funds, internal service funds and fiduciary funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The district-wide, proprietary and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not usually exceed one bill-paying cycle, and for the District, the length of that cycle is sixty days. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. The Fiduciary Funds, Financial Aid, Perkins, Self-Insurance and Unemployment Funds do not participate in aggregating cash. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from investments to the fund making the investment. For fiscal year 2014, the District approved transferring the interest earnings from the Capital Outlay Fund, Special Education Fund, and Pension Fund to the General Fund.

The actual bank balances at June 30, 2014, were as follows:

| | |
|---|----------------------|
| Insured (FDIC/NCUA) | \$ 920,056 |
| Uninsured, collateral jointly held by State's/District's agent in the name of the state and the pledging financial institution | 38,877,702 |
| | <u>\$ 39,797,758</u> |

The District's carrying amount of deposits on the June 30, 2014, balance sheet was \$39,388,657.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Investments - In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load mutual fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b).

SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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 increasing interest rates.

Credit Risk - State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices.

Investments are stated at fair value.

Inventory

Inventory held for consumption is stated at cost.

Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market values based on the USDA price list at date of receipt.

In the district-wide financial statements and in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Student Loans Receivable

Student loans receivable are loans provided by Lake Area Technical Institute to its students under the Perkins Loan Program. The financial aid office of the District is fully responsible for administering the program including application processing, approving, disbursing and collecting the loans. The student loans receivable has been presented as a noncurrent asset in the accompanying financial statements. The student loans receivable are net of an allowance for doubtful accounts of \$93,670. The allowance is calculated based upon the default rate for the past five years.

Interfund Eliminations and Reclassifications

District-Wide Financial Statements:

In the process of aggregating data for the district-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the funds, so that expenses are reported only in the functions to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that proceeds from collection of those receivables are not restricted, committed or assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets include land, buildings, improvements other than buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the district-wide or fund financial statements.

District-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of exhaustible fixed assets for machinery and equipment is recorded as an allocated expense in the statement of activities. The depreciation on improvements and buildings is recorded as an allocated expense with net capital assets reflected in the statement of net position. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the district-wide statement and proprietary funds are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Buildings | \$ 25,000 | Straight-line | 50 yrs |
| Improvements | 25,000 | Straight-line | 20 yrs |
| Machinery and Equipment | 5,000 | Straight-line | 3-20 yrs |

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the district-wide statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the district-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the district-wide statement. The long-term liabilities consist of capital outlay certificates payable, early retirement benefits payable and lease purchase obligations.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same in the fund statement as it is in the district-wide statements.

Program Revenues

In the district-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of activities, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities or investing activities are not reported as components of operating revenues or expenses.

Deferred Inflows of Resources

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Cash Flows

For the purpose of the statements of cash flows, the District considers all highly liquid investments and deposits (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. As of June 30, 2014, the District had no certificates of deposit that were included as cash equivalents or included in the practice of aggregating cash assets.

Equity Classifications

District-Wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets - consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position - consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between nonspendable, restricted, committed, assigned or unassigned components. Proprietary fund equity is classified the same as in the district-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

1. Nonspendable - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
2. 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.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

3. Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.
4. Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing board or by an official or body to which the governing body delegates the authority. The District's assigned fund balance in the General Fund represents amounts designated for next year's budget.
5. Unassigned - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Proprietary fund equity is classified the same as in the district-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as net position held in trust for other purposes.

The District does not have a formal minimum fund balance policy.

Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

2. Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. District property tax revenues are recognized to the extent they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenues.

The District is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the District:

| | Permitted | Actual | Plus Abatement Assessment | Total Actual |
|---|-----------|----------|---------------------------|--------------|
| General Fund: | | | | |
| Elementary and four-year accredited high school: | | | | |
| Agricultural property | \$ 2.090 | \$ 2.090 | \$.006 | \$ 2.096 |
| Owner occupied property | 4.296 | 4.296 | .012 | 4.308 |
| Nonagricultural property | 9.200 | 9.200 | .026 | 9.226 |
| Capital Outlay Fund | 3.000 | 3.000 | - | 3.000 |
| Special Education Fund | 1.552 | 1.552 | .003 | 1.555 |
| Pension Fund | .300 | .300 | - | .300 |

State statute allows the tax rates to be raised by special election of the District's voters. The following schedule reflects the taxable valuation for real estate for each county included in the District:

| | Owner Occupied | Non-Agricultural | Agricultural | Total |
|-----------|----------------|------------------|----------------|------------------|
| Codington | \$ 937,122,731 | \$ 540,974,273 | \$ 193,553,587 | \$ 1,671,650,591 |
| Deuel | 260,066 | 8,258 | 3,110,286 | 3,378,610 |
| Grant | 84,503 | 172,864 | 7,362,666 | 7,620,033 |
| Hamlin | 2,815,187 | 981,380 | 13,156,069 | 16,952,636 |
| | \$ 940,282,487 | \$ 542,136,775 | \$ 217,182,608 | \$ 1,699,601,870 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

3. Changes in Capital Assets

A summary of changes in capital assets for the fiscal year ended June 30, 2014, is as follows:

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|--|-------------------------|--------------|-------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,890,832 | \$ 87,450 | \$ - | \$ 4,978,282 |
| Construction in progress | 21,590 | 3,852,875 | (21,590) | 3,852,875 |
| Capital investment in Northeast Technical High School | 442,188 | 23,049 | - | 465,237 |
| Totals | 5,354,610 | 3,963,374 | (21,590) | 9,296,394 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 48,003,346 | 489,054 | - | 48,492,400 |
| Equipment | 14,245,105 | 1,621,624 | (313,526) | 15,553,203 |
| Laptop computers under capital lease | 1,474,259 | 2,195,567 | (1,474,259) | 2,195,567 |
| Totals | 63,722,710 | 4,306,245 | (1,787,785) | 66,241,170 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 22,481,894 | 1,159,220 | - | 23,641,114 |
| Equipment | 9,033,526 | 961,378 | (290,909) | 9,703,995 |
| Leased equipment | 1,474,259 | 548,892 | (1,474,259) | 548,892 |
| Total accumulated depreciation | 32,989,679 | 2,669,490 | (1,765,168) | 33,894,001 |
| Total capital assets, being depreciated, net | 30,733,031 | 1,636,755 | (22,617) | 32,347,169 |
| Governmental activity capital assets, net | \$ 36,087,641 | \$ 5,600,129 | \$ (44,207) | \$ 41,643,563 |

Depreciation expense for governmental activities was charged to functions as follows:

| | |
|--|--------------|
| Instructional | \$ 1,007,613 |
| Support | 1,661,877 |
| Total depreciation expense - governmental activities | \$ 2,669,490 |

Construction in progress at June 30, 2014, consists of the new middle school, the intermediate school renovation and the LATI HVAC renovation. See Note 14 for the commitments to these projects at June 30, 2014.

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|--|-------------------------|-------------|-----------|--------------------------|
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment | \$ 302,838 | \$ - | \$ - | \$ 302,838 |
| Total | 302,838 | - | - | 302,838 |
| Less accumulated depreciation for: | | | | |
| Equipment | 190,628 | 12,275 | - | 202,903 |
| Total capital assets, being depreciated, net | \$ 112,210 | \$ (12,275) | \$ - | \$ 99,935 |

Depreciation expense for business-type activities was charged to functions as follows:

| | |
|---|-----------|
| Nutrition Services | \$ 7,004 |
| Concessions | 390 |
| Bookstore | 3,279 |
| LATI Food Service | 1,602 |
| Total depreciation expense - business-type activities | \$ 12,275 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

A summary of changes in long-term debt, excluding other postemployment benefits, is as follows:

| | Capital Outlay Certificates | Unamortized Premium | Early Retirement Plan Obligations | Lease Purchase | Total |
|------------------------------|-----------------------------------|------------------------|--|-------------------|---------------|
| Debt payable, July 1, 2013 | \$ 2,835,000 | \$ - | \$ 457,420 | \$ - | \$ 3,292,420 |
| New debt issued | 17,445,000 | 982,682 | - | 2,195,567 | 20,623,249 |
| Obligation for 2014 retirees | - | - | 662,805 | - | 662,805 |
| Retired | (600,000) | - | (453,201) | (751,314) | (1,804,515) |
| Debt payable, June 30, 2014 | \$ 19,680,000 | \$ 982,682 | \$ 667,024 | \$ 1,444,253 | \$ 22,773,959 |

Debt payable at June 30, 2014, is comprised of the following:

Capital Outlay Certificates:

Capital Outlay Certificates, Series 2014, maturity dates – December, 2014 to December, 2033, interest rate 2-5%, payments made from Capital Outlay Fund \$ 17,445,000

Capital Outlay Refunding Certificates, Series 2011, maturity dates - August, 2012 to August, 2026, interest rate .55-3.75%, payments made from Capital Outlay Fund 2,235,000
 \$ 19,680,000

Early Retirement Plan Obligations:

Payments outstanding for District's Early Retirement Plan, Pension Fund \$ 326,534
 Payments outstanding for LATI's Early Retirement Plan, Post Secondary Fund 340,490
 \$ 667,024

Lease Purchase:

Lease purchase obligation to financing company, due in annual payments of \$491,756, including interest, through July, 2016, interest rate 1.07%, payments made from Capital Outlay Fund \$ 1,444,253

The gross amount of assets recorded under capital leases as of June 30, 2014, was \$2,195,567.

The annual requirements to amortize all debt outstanding, excluding other postemployment benefits and unamortized premium, as of June 30, 2014, are as follows:

| | Capital Outlay Certificates | | Early Retirement Plan | Lease Purchase | | Totals | |
|-----------|-----------------------------|--------------|-----------------------|----------------|-----------|---------------|--------------|
| | Principal | Interest | Obligations | Principal | Interest | Principal | Interest |
| 2015 | \$ 530,000 | \$ 753,320 | \$ 642,617 | \$ 476,303 | \$ 15,454 | \$ 1,648,920 | \$ 768,774 |
| 2016 | 820,000 | 693,764 | 24,407 | 481,399 | 10,357 | 1,325,806 | 704,121 |
| 2017 | 850,000 | 671,189 | - | 486,551 | 5,206 | 1,336,551 | 676,395 |
| 2018 | 865,000 | 647,540 | - | - | - | 865,000 | 647,540 |
| 2019 | 890,000 | 626,339 | - | - | - | 890,000 | 626,339 |
| 2020-2024 | 4,805,000 | 2,771,165 | - | - | - | 4,805,000 | 2,771,165 |
| 2025-2029 | 5,150,000 | 1,870,564 | - | - | - | 5,150,000 | 1,870,564 |
| 2030-2034 | 5,770,000 | 667,656 | - | - | - | 5,770,000 | 667,656 |
| Total | \$ 19,680,000 | \$ 8,701,536 | \$ 667,024 | \$ 1,444,253 | \$ 31,017 | \$ 21,791,277 | \$ 8,732,553 |

Total interest paid on the above obligations for the year ended June 30, 2014, was \$72,541.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

5. Other Postemployment Benefits

During fiscal year 2009, the District adopted the provisions of GASB 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” The premise of GASB 45 is to recognize costs of post-employment benefits (OPEB) to the period which the employee earns them. This liability is included in long-term debt, due in more than one year, on the statement of net position.

Plan Description

The District operates a single-employer retiree benefit plan (“Plan”) that offers medical insurance benefits to eligible employees and their spouses. The Plan does not issue a stand-alone financial report. The authority for providing other post employment benefits is found in SDCL 6-1-16 and 13-10-3. Benefits and eligibility for employees are established and amended through collective bargaining with the recognized bargaining agent for the employees. Employees hired after August 1, 2008, are not eligible for OPEB. Retirees are also not eligible after they reach the Medicare qualifying age. As a result of these factors not being taken into consideration in prior year’s actuarial reports, the current year Unfunded Actuarial Accrued Liability (UAAL) decreased significantly as reported in the Schedule of Funding Progress on page 56. There were 547 active and 61 retired members enrolled in OPEB for the year ended June 30, 2014.

Funding Policy

The District is currently funding the Plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|------------|
| Annual required contribution | \$ 294,980 |
| Interest on net OPEB obligation | 10,356 |
| Adjustment to annual required contribution | (22,893) |
| Annual OPEB cost | 282,443 |
| Contributions made | (164,946) |
| Increase in net OPEB obligation | 117,497 |
| Net OPEB obligation, beginning of year | 517,797 |
| Net OPEB obligation, end of year | \$ 635,294 |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 2014 | \$ 282,443 | 58% | \$ 635,294 |
| 2013 | 285,579 | 55% | 517,797 |
| 2012 | 652,181 | 83% | 388,259 |

Funded Status and Funding Progress

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 the healthcare cost trend. 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.

NOTES TO FINANCIAL STATEMENTS

5. Other Postemployment Benefits (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefit.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the August, 2013, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 2% interest discount rate and an annual medical healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 3% after 5 years. The UAAL is being amortized over 30 years from establishment. Differences between the expected and actual UAAL in future years will be amortized over 30 years.

6. Leases

The District leases the facilities for a portion of the Lake Area Technical Institute from the South Dakota Board of Education. The facilities were constructed with a grant from the South Dakota Health and Education Facilities Authority (“Authority”) funded from proceeds from bonds issued. The South Dakota Board of Education leases the facility from the Authority and then sub-leases it to the District. The lease agreement calls for rental payments coinciding with the bond retirement schedule. Currently, those rentals are being paid from the facility fee fund account maintained by the trustee. It is anticipated that these fees will be sufficient to make the lease payments throughout the term of the lease. The facility fee is \$25 per credit hour collected from each student attending the four vocational technical schools in the State. These fees are remitted to the trustee for the purpose of retiring the indebtedness against the facilities constructed at the various vocational technical schools. The lease term is for twenty-five years, although there is a cancellation clause for non-appropriation funds. At the conclusion of the lease, the District and the South Dakota Board of Education have the option of renewing the lease on an annual basis for \$100, subject to the restriction on use of the project for post secondary vocational technical education.

7. Individual Fund Interfund Receivable and Payable Balances

The June 30, 2014, interfund receivable and payable balances are for amounts due between funds for services provided, such as administrative fees, supply purchases, computer support services, bookstore and food services. Interfund receivable and payable balances at June 30, 2014, were:

| Fund | Interfund Receivables | Interfund Payables |
|-----------------------------|--------------------------|-----------------------|
| General Fund | \$ 68,580 | \$ 90 |
| Special Revenue Funds: | | |
| Capital Outlay | 1,300,000 | 18,242 |
| Special Education | - | 8,498 |
| Post Secondary | 935 | 1,578,134 |
| Pension | - | 5,222 |
| Enterprise Funds: | | |
| Nutrition Services | - | 295 |
| Drivers Education | - | 69 |
| Bookstore | 12,891 | 553 |
| LATI Food Service | 3,651 | 74 |
| LATI Daycare | - | 475 |
| Fiduciary Fund: | | |
| Private-Purpose Trust Funds | 230,000 | - |
| Agency | 79 | 4,484 |
| | \$ 1,616,136 | \$ 1,616,136 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

7. Individual Fund Interfund Receivable and Payable Balances (Continued)

The Post Secondary Fund advanced \$5,500 to the Financial Aid Fund for miscellaneous administrative expenses.

The Concessions Fund transferred \$61,300 to the Capital Outlay Fund for the arena restroom remodel and athletic equipment. The Capital Outlay Fund, Special Education Fund, and Pension Fund transferred \$18,194, \$5,221, and \$5,222, respectively, to the General Fund for interest earnings. The General Fund transferred \$2,000 to the Pre-school Services Fund.

8. Interfund Revenues and Expenditures

For the year ended June 30, 2014, the General Fund received revenues from other funds for administrative services. These amounts have been recognized as revenue in the General Fund and expenditures in the other funds as follows:

| Fund | Amount |
|-------------------|-------------------|
| Bookstore | \$ 5,200 |
| LATI Food Service | 5,200 |
| Post Secondary | 165,525 |
| | <u>\$ 175,925</u> |

The Bookstore and LATI Food Service Funds each paid rent in the amount of \$6,950 to the Post Secondary Fund. The Post Secondary Fund paid \$34,917 to the Financial Aid Fund for financial aid matching requirements. The Financial Aid Fund paid the Post Secondary Fund \$25,278 for administrative expenses. The Post Secondary Fund made general purchases from the Bookstore and LATI Food Services Funds in the amounts of \$72,720 and \$61,100, respectively. The Lake Area Technical Institute Foundation paid the Post Secondary Fund \$131,288 for reimbursement of salaries and contributed \$200,000 and \$21,033 in cash and noncash donations, respectively, to the Post Secondary Fund. The amounts were recognized as revenues and expenditures in the respective funds.

9. Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

| Purpose | Restricted By | Amount |
|----------------------------|---------------|----------------------|
| Capital Outlay | Law | \$ 4,972,870 |
| Special Education | Law | 1,219,872 |
| Post Secondary | Law | 325,874 |
| Pension | Law | 1,592,880 |
| Perkins | Law | 1,078,634 |
| LATI Foundation | Law | 2,119,039 |
| Arrow Education Foundation | Law | 1,027,887 |
| | | <u>\$ 12,337,056</u> |

10. Retirement Plan

All employees, except for temporary employees working fewer than 20 hours per week, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the Plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012, was \$1,517,834, \$1,462,606 and \$1,425,733, respectively, equal to the required contributions each year.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

11. Early Retirement Plan

The District has a retirement policy providing cash benefits to any full-time salaried employee with at least fifteen years of full-time salaried services with the District, and who are between and/or inclusive of the ages of fifty-five and sixty-two as of June 30 of the application year. The cash benefit is equal to 75% of the individual employee's last contract salary, exclusive of extra duty and cocurricular salary, if any, unless the position within a sport/activity has been held for fifteen consecutive years immediately preceding retirement. For the year ended June 30, 2014, there were fifteen employees participating in this plan. For individuals who qualify, the cash benefit is paid into an employer directed nonERISA 403(b) plan in the name of the retiree. The early retirement cash payments are funded by the District's Pension Fund and Post Secondary Fund. Benefits paid for the year ended June 30, 2014, were \$300,519 and \$152,683, which were paid from the Pension Fund and Post Secondary Fund, respectively.

12. Joint Venture

The District participates in the Northeast Technical High School, a cooperative service unit ("Co-op") formed for the purpose of providing vocational training services to the member districts.

The members of the Co-op and their relative percentage participation in the Co-op are as follows:

| | |
|--------------------------------------|---------|
| Castlewood School District No. 28-1 | 4.69% |
| Florence School District No. 14-1 | 3.53% |
| Grant-Deuel School District No. 25-3 | 3.20% |
| Great Plains Lutheran School | 5.84% |
| Hamlin School District No. 28-3 | 9.76% |
| Henry School District No. 14-2 | 3.20% |
| Summit School District No. 54-6 | 2.26% |
| Watertown School District No. 14-4 | 63.77% |
| Waverly School District No. 14-5 | 3.75% |
| | <hr/> |
| | 100.00% |

The Co-op's governing board is composed of three members from the school board of the largest member school and one member from the school board from each remaining member school. The superintendent of the District and one other superintendent are appointed by the governing board to serve as advisors to the governing board in a non-voting capacity. The governing board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District has an equity interest in the net position of the Co-op. This interest has been reported using the equity method of accounting. Separate financial statements for this joint venture are available from the Northeast Technical High School. At June 30, 2013, this joint venture had no long-term debt and total fund equity of \$719,497.

The above information is as of June 30, 2013, due to the fact that the June 30, 2014, information was unavailable as of the audit report date.

13. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2014, the District managed its risks as follows:

Employee Group Insurance

The District has a group health self-insurance fund to pay for health and dental claims of District employees and their covered dependents. Premiums paid to the fund are actuarially determined and they cover the cost of processed claims, administrative costs, network participation fees and the cost of individual stop-loss insurance at a coverage level of \$100,000 per covered individual per year with an additional aggregating specific of \$150,000. The District did not purchase aggregate stop-loss insurance for the year ended June 30, 2014.

WATERTOWN SCHOOL DISTRICT NO. 14-4

NOTES TO FINANCIAL STATEMENTS

13. Risk Management (Continued)

Total claims and administrative costs incurred during the year ended June 30, 2014, were \$4,376,963 and \$984,754, respectively. Those costs were funded by \$4,211,620 of premiums which were charged to expenditures by the District, \$48,880 of reinsurance from stop-loss coverage and \$1,635,780 of premiums which were funded by employee withholdings and by retired employees. At June 30, 2014, the District accrued an estimated liability for incurred but not reported claims of \$655,173, based upon historical trends. Changes in the balances of claims liabilities during the year ended June 30, 2014, were as follows:

| June 30, 2013 Liability | Current Year Claims and Changes in Estimates | Claim Payments | June 30, 2014 Liability |
|----------------------------|---|-------------------|----------------------------|
| \$ 599,256 | \$ 4,376,963 | \$ 4,321,046 | \$ 655,173 |

The District also has a reserve for future claims of \$2,312,606. This reserve and the related investments are accounted for in the Internal Service Fund.

Liability Insurance

The District participates in the Associated Boards of South Dakota Property Liability Fund (“ASBSD-PLF”), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts.

The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District’s responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the District.

The District pays an annual premium to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The District pays an annual premium to the pool to provide coverage for general, automobile, boiler and machinery and professional liability.

The agreement with the ASBSD-PLF provides that the above coverages will be provided to a \$250,000,000, \$50,000,000 and \$200,000 limit for buildings and contents, boiler & machinery and crime, respectively. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries a \$500 deductible for buildings and contents liability, a \$1,000 deductible for boiler and machinery liability, and a \$1,000 deductible for crime.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers’ Compensation

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers’ Compensation Fund Pool (“Fund”), which provided workers’ compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers’ compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District’s responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any workers’ compensation claims. The District pays an annual premium, to provide workers’ compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a pro-rated basis based upon each participant’s percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

NOTES TO FINANCIAL STATEMENTS

13. Risk Management (Continued)

The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District has reserved equity in the Internal Service Fund in the amount of \$201,356 for the payment of future unemployment benefits. During the year ended June 30, 2014, claims were filed for unemployment benefits resulting in the payment of benefits in the amount of \$3,948. At June 30, 2014, the District had \$345 claims payable.

14. Significant Commitments and Subsequent Events

In January, 2014, the District authorized the construction of a new middle school. The District had expended \$2,836,870 through June 30, 2014. The total estimated cost of the project, including architectural, engineering and professional costs is \$18,255,302. The project is being funded by the issuance of Capital Outlay Certificates. The contracted completion date of the project is August, 2015.

In February, 2015, the District authorized the renovation of the intermediate school. The District had expended \$89,803 through June 30, 2014. The total estimated cost of the project is \$2,100,000, which is being funded by cash on hand. The estimated completion date of the project is July, 2016.

In March, 2014, the District authorized a LATI HVAC renovation. The District had expended \$926,202 through June 30, 2014. The total cost of the project is \$1,530,590 and was completed August, 2014.

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - GENERAL FUND

Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|-----------------------------------|-------------------|-------------------|-------------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 9,156,725 | \$ 9,156,725 | \$ 9,089,103 | \$ (67,622) |
| Other taxes | 375,000 | 375,000 | 410,142 | 35,142 |
| Tuition and fees | - | - | 667 | 667 |
| Interest earned | 35,000 | 35,000 | 25,795 | (9,205) |
| Cocurricular activities: | | | | |
| Admissions | 117,500 | 117,500 | 105,111 | (12,389) |
| Other revenue from local sources: | | | | |
| Other | 469,925 | 522,425 | 545,863 | 23,438 |
| | <u>10,154,150</u> | <u>10,206,650</u> | <u>10,176,681</u> | <u>(29,969)</u> |
| Intermediate sources: | | | | |
| County sources | 435,000 | 435,000 | 411,312 | (23,688) |
| Revenue in lieu of taxes | 18,000 | 18,000 | 8,485 | (9,515) |
| | <u>453,000</u> | <u>453,000</u> | <u>419,797</u> | <u>(33,203)</u> |
| State sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted | 9,312,000 | 9,312,000 | 8,850,356 | (461,644) |
| Other state revenue | 480,000 | 710,750 | 691,059 | (19,691) |
| | <u>9,792,000</u> | <u>10,022,750</u> | <u>9,541,415</u> | <u>(481,335)</u> |
| Federal sources: | | | | |
| Restricted received from Federal | | | | |
| Government through the State | 1,383,305 | 1,398,050 | 1,289,872 | (108,178) |
| Other federal revenue | 68,330 | 71,422 | 65,277 | (6,145) |
| | <u>1,451,635</u> | <u>1,469,472</u> | <u>1,355,149</u> | <u>(114,323)</u> |
| Total Revenues | 21,850,785 | 22,151,872 | 21,493,042 | (658,830) |
| Expenditures | | | | |
| Instruction: | | | | |
| Regular programs: | | | | |
| Elementary | 6,906,535 | 7,018,117 | 6,813,742 | 204,375 |
| Middle school | 2,229,180 | 2,239,045 | 2,163,051 | 75,994 |
| High school | 4,074,940 | 4,110,745 | 3,960,897 | 149,848 |
| Special programs: | | | | |
| Gifted and talented | 158,430 | 158,430 | 155,716 | 2,714 |
| Other | 1,241,645 | 1,282,479 | 1,172,798 | 109,681 |
| | <u>14,610,730</u> | <u>14,808,816</u> | <u>14,266,204</u> | <u>542,612</u> |

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - GENERAL FUND (CONTINUED)

Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|--|---------------------|---------------------|---------------------|------------------------------------|
| | Original | Final | | |
| Support services: | | | | |
| Pupils: | | | | |
| Attendance and social work | 305,170 | 305,170 | 288,787 | 16,383 |
| Health | 127,690 | 127,690 | 114,695 | 12,995 |
| Guidance | 612,740 | 613,990 | 598,112 | 15,878 |
| Instructional staff: | | | | |
| Improvement of instruction | 96,885 | 243,900 | 219,457 | 24,443 |
| Educational media | 984,910 | 990,410 | 949,361 | 41,049 |
| General administration: | | | | |
| Board of education | 91,120 | 100,120 | 68,594 | 31,526 |
| Executive administration | 406,670 | 414,670 | 420,224 | (5,554) |
| School administration: | | | | |
| Office of the principal | 1,349,240 | 1,335,415 | 1,311,849 | 23,566 |
| Business: | | | | |
| Fiscal services | 427,165 | 433,985 | 407,073 | 26,912 |
| Operation and maintenance of plant | 1,521,475 | 1,537,975 | 1,429,749 | 108,226 |
| Pupil transportation | 653,220 | 659,220 | 600,894 | 58,326 |
| Central: | | | | |
| Staff | 84,165 | 73,165 | 70,997 | 2,168 |
| | 6,660,450 | 6,835,710 | 6,479,792 | 355,918 |
| Community services: | | | | |
| Nonpublic school and other | 29,000 | 34,191 | 39,472 | (5,281) |
| Cocurricular activities: | | | | |
| Male activities | 237,195 | 242,495 | 225,352 | 17,143 |
| Female activities | 202,955 | 208,355 | 196,503 | 11,852 |
| Combined activities | 419,490 | 422,190 | 386,822 | 35,368 |
| Athletic director | 143,640 | 143,640 | 141,639 | 2,001 |
| | 1,003,280 | 1,016,680 | 950,316 | 66,364 |
| Total Expenditures | 22,303,460 | 22,695,397 | 21,735,784 | 959,613 |
| Excess of Revenues Over (Under) Expenditures | (452,675) | (543,525) | (242,742) | 300,783 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 43,000 | 43,000 | 28,637 | (14,363) |
| Sale of surplus property | - | - | 10,279 | 10,279 |
| Transfer out | - | (2,000) | (2,000) | - |
| Total Other Financing Sources (Uses) | 43,000 | 41,000 | 36,916 | (4,084) |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (409,675) | (502,525) | (205,826) | 296,699 |
| Fund balance, beginning | 5,677,154 | 5,677,154 | 5,677,154 | - |
| Fund Balance, Ending | \$ 5,267,479 | \$ 5,174,629 | \$ 5,471,328 | \$ 296,699 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - CAPITAL OUTLAY FUND
 Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|--|------------------|---------------|---------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 4,962,455 | \$ 4,962,455 | \$ 4,987,068 | \$ 24,613 |
| Other taxes | 10,000 | 10,000 | 9,293 | (707) |
| Interest earned | 15,000 | 15,000 | 19,561 | 4,561 |
| Other revenue from local sources: | | | | |
| Other | 45,000 | 45,000 | 45,515 | 515 |
| | 5,032,455 | 5,032,455 | 5,061,437 | 28,982 |
| Federal sources: | | | | |
| Restricted received from federal government through the state | | | | |
| | - | - | 4,609 | 4,609 |
| Total Revenues | 5,032,455 | 5,032,455 | 5,066,046 | 33,591 |
| Expenditures | | | | |
| Instruction: | | | | |
| Regular programs: | | | | |
| Elementary | 757,850 | 757,850 | 690,625 | 67,225 |
| Middle school | 42,000 | 42,000 | 41,206 | 794 |
| High school | 187,000 | 204,500 | 2,397,942 | (2,193,442) |
| Special programs: | | | | |
| Other | 17,000 | 17,000 | 15,573 | 1,427 |
| | 1,003,850 | 1,021,350 | 3,145,346 | (2,123,996) |
| Support services: | | | | |
| Business: | | | | |
| Administrative services | 30,625 | 30,625 | 16,983 | 13,642 |
| Operation and maintenance of plant | 6,681,315 | 6,825,160 | 4,442,173 | 2,382,987 |
| Pupil transportation | 453,700 | 488,700 | 437,014 | 51,686 |
| | 7,165,640 | 7,344,485 | 4,896,170 | 2,448,315 |
| Cocurricular activities: | | | | |
| Combined activities | 152,500 | 152,500 | 130,054 | 22,446 |
| Debt services | 1,425,540 | 1,547,695 | 1,547,008 | 687 |
| Total Expenditures | 9,747,530 | 10,066,030 | 9,718,578 | 347,452 |
| Excess of Revenues Over (Under) Expenditures | (4,715,075) | (5,033,575) | (4,652,532) | 381,043 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 61,300 | 61,300 | 61,300 | - |
| Capital lease proceeds | - | - | 2,195,567 | 2,195,567 |
| Sale of certificates | 14,000,000 | 18,427,685 | 18,427,682 | (3) |
| Sale of property | 130,000 | 130,000 | 110,750 | (19,250) |
| Transfers out | (15,000) | (15,000) | (18,194) | (3,194) |
| Total Other Financing Sources (Uses) | 14,176,300 | 18,603,985 | 20,777,105 | 2,173,120 |
| Excess of Revenues and Other Sources Over Expenditures and Other Uses | 9,461,225 | 13,570,410 | 16,124,573 | 2,554,163 |
| Fund balance, beginning | 4,439,109 | 4,439,109 | 4,439,109 | - |
| Fund Balance, Ending | \$ 13,900,334 | \$ 18,009,519 | \$ 20,563,682 | \$ 2,554,163 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - SPECIAL EDUCATION FUND
 Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|--|---------------------|-------------------|---------------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources: | | | | |
| Taxes: | | | | |
| Ad valorem taxes | \$ 2,449,200 | \$ 2,449,200 | \$ 2,470,883 | \$ 21,683 |
| Other taxes | 5,400 | 5,400 | 4,366 | (1,034) |
| Tuition and fees | - | - | 3,029 | 3,029 |
| Interest earned | 4,500 | 4,500 | 5,221 | 721 |
| Other | 41,000 | 41,000 | 57,609 | 16,609 |
| | 2,500,100 | 2,500,100 | 2,541,108 | 41,008 |
| State sources: | | | | |
| Grants-in-aid: | | | | |
| Restricted | 1,771,665 | 1,771,665 | 1,668,962 | (102,703) |
| Federal sources: | | | | |
| Restricted received from Federal Government through the State | | | | |
| | 824,900 | 948,518 | 600,668 | (347,850) |
| Total Revenues | 5,096,665 | 5,220,283 | 4,810,738 | (409,545) |
| Expenditures | | | | |
| Instruction: | | | | |
| Special programs: | | | | |
| Programs for special education | 3,741,312 | 3,959,973 | 3,327,434 | 632,539 |
| Support services: | | | | |
| Pupils: | | | | |
| Health | 143,725 | 178,367 | 149,708 | 28,659 |
| Psychological services | 137,085 | 137,085 | 135,861 | 1,224 |
| Speech, pathology and audiology | 501,715 | 504,833 | 444,901 | 59,932 |
| Occupational therapy | 318,220 | 343,220 | 337,784 | 5,436 |
| Instructional staff: | | | | |
| Improvement of instruction | 18,550 | 35,600 | 22,352 | 13,248 |
| Educational media | 10,000 | 10,000 | 10,000 | - |
| Business: | | | | |
| Pupil transportation | 81,790 | 89,800 | 91,576 | (1,776) |
| Central: | | | | |
| Staff | 13,280 | 13,280 | 7,018 | 6,262 |
| Special Education: | | | | |
| Administrative costs | 169,620 | 175,620 | 168,587 | 7,033 |
| | 1,393,985 | 1,487,805 | 1,367,787 | 120,018 |
| Total Expenditures | 5,135,297 | 5,447,778 | 4,695,221 | 752,557 |
| Excess of Revenues Over (Under) Expenditures | (38,632) | (227,495) | 115,517 | 343,012 |
| Other Financing Uses | | | | |
| Transfers out | (4,500) | (4,500) | (5,221) | (721) |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (43,132) | (231,995) | 110,296 | 342,291 |
| Fund balance, beginning | 1,109,576 | 1,109,576 | 1,109,576 | - |
| Fund Balance, Ending | \$ 1,066,444 | \$ 877,581 | \$ 1,219,872 | \$ 342,291 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - POST SECONDARY FUND
Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|--|--------------------|---------------------|--------------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources: | | | | |
| Tuition and fees | \$ 7,872,275 | \$ 7,872,275 | \$ 7,783,850 | \$ (88,425) |
| Interest earned | 15,000 | 15,000 | 12,281 | (2,719) |
| Cocurricular activities: | | | | |
| Other pupil activity income | 282,500 | 282,500 | 334,049 | 51,549 |
| Other revenue from local sources: | | | | |
| Other | 595,000 | 743,500 | 756,838 | 13,338 |
| | 8,764,775 | 8,913,275 | 8,887,018 | (26,257) |
| State sources: | | | | |
| Grants-in-aid: | | | | |
| Unrestricted | 5,375,000 | 6,179,500 | 6,043,349 | (136,151) |
| Other state revenue | 490,000 | 492,500 | 551,666 | 59,166 |
| | 5,865,000 | 6,672,000 | 6,595,015 | (76,985) |
| Federal sources: | | | | |
| Restricted received from federal government through the state | | | | |
| | 1,564,505 | 2,395,561 | 2,096,318 | (299,243) |
| Total Revenues | 16,194,280 | 17,980,836 | 17,578,351 | (402,485) |
| Expenditures | | | | |
| Instruction: | | | | |
| Adult continuing education programs: | | | | |
| Occupational programs | 8,114,585 | 9,302,275 | 8,780,809 | 521,466 |
| Other | 95,360 | 95,360 | 81,856 | 13,504 |
| | 8,209,945 | 9,397,635 | 8,862,665 | 534,970 |
| Support services: | | | | |
| Pupils: | | | | |
| Technology support | 797,390 | 797,390 | 748,057 | 49,333 |
| Guidance | 806,055 | 806,055 | 752,523 | 53,532 |
| Library/media | 221,360 | 221,360 | 171,972 | 49,388 |
| Other | 2,202,500 | 3,065,556 | 2,572,037 | 493,519 |
| Instructional staff: | | | | |
| Staff development | 4,200 | 4,200 | 2,225 | 1,975 |
| Instruction curriculum development | 283,560 | 293,560 | 289,859 | 3,701 |
| General administration: | | | | |
| Board of education | 37,030 | 43,030 | 38,374 | 4,656 |
| Executive administration | 57,800 | 57,800 | 57,800 | - |
| School administration: | | | | |
| Office of the director | 646,810 | 656,810 | 569,317 | 87,493 |
| Business: | | | | |
| Fiscal services | 99,725 | 99,725 | 99,725 | - |
| Facilities acquisition and construction | 3,705,500 | 5,455,500 | 4,805,325 | 650,175 |
| Operation and maintenance of plant | 1,601,320 | 1,658,520 | 1,447,887 | 210,633 |
| Pupil transportation | 64,000 | 64,000 | 51,558 | 12,442 |
| Other support services | 609,895 | 662,395 | 639,634 | 22,761 |
| | 11,137,145 | 13,885,901 | 12,246,293 | 1,639,608 |
| Nonprogrammed charges: | | | | |
| Pension payments | 152,690 | 152,690 | 152,683 | 7 |
| Total Expenditures | 19,499,780 | 23,436,226 | 21,261,641 | 2,174,585 |
| Excess of Revenues Over (Under) Expenditures | (3,305,500) | (5,455,390) | (3,683,290) | 1,772,100 |
| Other Financing Sources (Uses) | | | | |
| State bond proceeds | 3,200,500 | 4,100,500 | 3,430,749 | (669,751) |
| Sale of property | 5,000 | 5,000 | 9,789 | 4,789 |
| Extraordinary cost | - | (121,170) | (112,170) | 9,000 |
| Total Other Financing Sources | 3,205,500 | 3,984,330 | 3,328,368 | (655,962) |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | | | | |
| | (100,000) | (1,471,060) | (354,922) | 1,116,138 |
| Fund balance, beginning | 680,796 | 680,796 | 680,796 | - |
| Fund Balance, Ending | \$ 580,796 | \$ (790,264) | \$ 325,874 | \$ 1,116,138 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS - FINANCIAL AID FUND
 Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance Positive (Negative) |
|---|-------------------|-------------------|-------------------|------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources: | | | | |
| Other revenue from local sources: | | | | |
| Other | \$ 275,000 | \$ 275,000 | \$ 36,933 | \$ (238,067) |
| State sources: | | | | |
| Grants-in-aid: | | | | |
| Other | 60,000 | 60,000 | 65,707 | 5,707 |
| Federal sources: | | | | |
| Restricted received from Federal | | | | |
| Government through the State | 11,250,000 | 11,250,000 | 10,471,000 | (779,000) |
| Total Revenues | 11,585,000 | 11,585,000 | 10,573,640 | (1,011,360) |
| Expenditures | | | | |
| Support services: | | | | |
| Financial aid | 11,585,000 | 11,585,000 | 10,573,640 | 1,011,360 |
| | 11,585,000 | 11,585,000 | 10,573,640 | 1,011,360 |
| Total Expenditures | 11,585,000 | 11,585,000 | 10,573,640 | 1,011,360 |
| Excess of Revenues Over (Under) Expenditures | | | | |
| | - | - | - | - |
| Fund balance, beginning | - | - | - | - |
| Fund Balance, Ending | \$ - | \$ - | \$ - | \$ - |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgets and Budgetary Accounting

South Dakota Codified Law prescribes the budgetary procedures to be followed by the District as follows:

- a. Prior to the first regular board meeting in May of each year, the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- b. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
- c. The proposed budget is published for public review no later than July 15 each year.
- d. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- e. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
- f. After adoption by the school board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in letter h.
- g. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- h. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when monies are available to increase legal spending authority.
- i. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
- j. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the District only.
- k. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

The financial statements prepared in conformity with accounting principles generally accepted in the United States of America present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances, however in the budgetary RSI schedule, the purchase of a school bus would be reported as an expenditure of the support services-business/pupil transportation function of government, along with all other current pupil transportation related expenditures.

WATERTOWN SCHOOL DISTRICT NO. 14-4

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS
 Year Ended June 30, 2014

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|--|
| 6/30/2013 | - \$ | 3,027,937 | \$ 3,027,937 | 0.00% | \$ 25,833,711 | 11.72% |
| 6/30/2011 | - | 6,887,621 | 6,887,621 | 0.00% | 25,672,832 | 26.83% |
| 6/30/2009 | - | 7,147,604 | 7,147,604 | 0.00% | 23,561,266 | 30.34% |

WATERTOWN SCHOOL DISTRICT NO. 14-4

SCHOOL DISTRICT OFFICIALS

June 30, 2014

Board of Education:

Tammy Rieber

Tom Linngren

Garrett Priest

Susan Jones

Dr. Fred Deutsch

Chairperson

Vice Chairperson

Board Member

Board Member

Board Member

Superintendent:

Dr. Lesli Jutting

Business Manager:

Rick Hohn

WATERTOWN SCHOOL DISTRICT NO. 14-4

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

| | Pension Fund | Perkins Fund | LATI Foundation | Arrow Education Foundation | Total Nonmajor Governmental Funds |
|---|---------------------|---------------------|---------------------|-------------------------------|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,598,102 | \$ 197,644 | \$ 169,865 | \$ 307,940 | \$ 2,273,551 |
| Investments, at Fair Value | - | - | 1,986,872 | 731,530 | 2,718,402 |
| Taxes Receivable, Current | 247,027 | - | - | - | 247,027 |
| Accounts Receivable | - | - | 85,790 | - | 85,790 |
| Student Loans Receivable, net of allowance \$93,670 | - | 880,990 | - | - | 880,990 |
| Inventories - Supplies | - | - | - | 3,073 | 3,073 |
| TOTAL ASSETS | \$ 1,845,129 | \$ 1,078,634 | \$ 2,242,527 | \$ 1,042,543 | \$ 6,208,833 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ 13,027 | \$ 13,027 |
| Scholarships Payable | - | - | 123,488 | - | 123,488 |
| Due to other Funds | 5,222 | - | - | - | 5,222 |
| Total Liabilities | 5,222 | - | 123,488 | 13,027 | 141,737 |
| Deferred Inflows of Resources: | | | | | |
| Taxes Levied for Future Period | 247,027 | - | - | - | 247,027 |
| Other Deferred Inflows of Resources | - | - | - | 1,629 | 1,629 |
| Total Deferred Inflows of Resources | 247,027 | - | - | 1,629 | 248,656 |
| Fund Balances: | | | | | |
| Restricted - Pension | 1,592,880 | - | - | - | 1,592,880 |
| Restricted - Perkins | - | 1,078,634 | - | - | 1,078,634 |
| Restricted - LATI Foundation | - | - | 2,119,039 | - | 2,119,039 |
| Restricted - Arrow Education Foundation | - | - | - | 1,027,887 | 1,027,887 |
| Total Fund Balances | 1,592,880 | 1,078,634 | 2,119,039 | 1,027,887 | 5,818,440 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 1,845,129 | \$ 1,078,634 | \$ 2,242,527 | \$ 1,042,543 | \$ 6,208,833 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Pension Fund | Perkins Fund | LATI Foundation | Arrow Education Foundation | Total Nonmajor Governmental Funds |
|---|---------------------|---------------------|---------------------|-------------------------------|---|
| REVENUES | | | | | |
| Revenue From Local Sources: | | | | | |
| Taxes: | | | | | |
| Ad Valorem Taxes | \$ 496,147 | \$ - | \$ - | \$ - | \$ 496,147 |
| Prior Years' Ad Valorem Taxes | 2,224 | - | - | - | 2,224 |
| Penalties and Interest on Taxes | 929 | - | - | - | 929 |
| Private Donations and Grants | - | - | 1,314,019 | 351,346 | 1,665,365 |
| Earnings on Investments and Deposits | 5,223 | 17,052 | 75,124 | 1,266 | 98,665 |
| Special Events and Fundraising | - | - | 204,332 | - | 204,332 |
| Realized and Unrealized Gain on Investments | - | - | 198,402 | 78,563 | 276,965 |
| Other Local Revenue | - | 3,749 | - | - | 3,749 |
| Total Revenue From Local Sources | 504,523 | 20,801 | 1,791,877 | 431,175 | 2,748,376 |
| Total Revenues | 504,523 | 20,801 | 1,791,877 | 431,175 | 2,748,376 |
| EXPENDITURES | | | | | |
| Support Services: | | | | | |
| Pupils: | | | | | |
| Financial Aid | - | 15,215 | - | - | 15,215 |
| General Administration: | | | | | |
| Beneficiary Costs | - | - | 1,064,870 | 44,409 | 1,109,279 |
| Fundraising | - | - | 212,760 | 63,584 | 276,344 |
| Management and General | - | - | 40,256 | 89,972 | 130,228 |
| Total Support Services | - | 15,215 | 1,317,886 | 197,965 | 1,531,066 |
| Early Retirement Payments | 300,519 | - | - | - | 300,519 |
| Total Expenditures | 300,519 | 15,215 | 1,317,886 | 197,965 | 1,831,585 |
| EXCESS OF REVENUE OVER EXPENDITURES | 204,004 | 5,586 | 473,991 | 233,210 | 916,791 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers Out | (5,222) | - | - | - | (5,222) |
| Total Other Financing Sources (Uses) | (5,222) | - | - | - | (5,222) |
| NET CHANGE IN FUND BALANCES | 198,782 | 5,586 | 473,991 | 233,210 | 911,569 |
| FUND BALANCE, BEGINNING | 1,394,098 | 1,073,048 | 1,645,048 | 794,677 | 4,906,871 |
| FUND BALANCE, ENDING | \$ 1,592,880 | \$ 1,078,634 | \$ 2,119,039 | \$ 1,027,887 | \$ 5,818,440 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

June 30, 2014

| | Self- Insurance Fund | Unemployment Fund | Total Internal Service Funds |
|---|----------------------------|----------------------|------------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 2,967,779 | \$ 201,701 | \$ 3,169,480 |
| TOTAL ASSETS | \$ 2,967,779 | \$ 201,701 | \$ 3,169,480 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Incurred But Not Reported Claims | \$ 655,173 | \$ 345 | \$ 655,518 |
| NET POSITION | | | |
| Unrestricted | 2,312,606 | 201,356 | 2,513,962 |
| Total Net Position | 2,312,606 | 201,356 | 2,513,962 |
| TOTAL LIABILITIES AND NET POSITION | \$ 2,967,779 | \$ 201,701 | \$ 3,169,480 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Self- Insurance Fund | Unemployment Fund | Total Internal Service Funds |
|-----------------------------------|----------------------------|----------------------|------------------------------------|
| OPERATING REVENUE | | | |
| Self-Insurance Premiums | \$ 5,896,280 | \$ - | \$ 5,896,280 |
| Total Operating Revenue | 5,896,280 | - | 5,896,280 |
| OPERATING EXPENSES | | | |
| Unemployment Claims | - | 4,142 | 4,142 |
| Self-Insurance Costs | 5,361,717 | - | 5,361,717 |
| Total Operating Expenses | 5,361,717 | 4,142 | 5,365,859 |
| OPERATING LOSS | 534,563 | (4,142) | 530,421 |
| NONOPERATING REVENUE | | | |
| Local Services: | | | |
| Interest Earned | 8,769 | 865 | 9,634 |
| TOTAL NONOPERATING REVENUE | 8,769 | 865 | 9,634 |
| CHANGE IN NET POSITION | 543,332 | (3,277) | 540,055 |
| NET POSITION, BEGINNING | 1,769,274 | 204,633 | 1,973,907 |
| NET POSITION, ENDING | \$ 2,312,606 | \$ 201,356 | \$ 2,513,962 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Self- Insurance Fund | Unemployment Fund | Total Internal Service Funds |
|---|----------------------------|----------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts From Interfund Services Provided | \$ 6,350,224 | \$ - | \$ 6,350,224 |
| Claims and Administrative Expenses Paid | (5,305,800) | (3,948) | (5,309,748) |
| Net Cash From Operating Activities | 1,044,424 | (3,948) | 1,040,476 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest Earnings | 8,769 | 865 | 9,634 |
| Net Cash From Investing Activities | 8,769 | 865 | 9,634 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,053,193 | (3,083) | 1,050,110 |
| CASH AND CASH EQUIVALENTS, BEGINNING | 1,914,586 | 204,784 | 2,119,370 |
| CASH AND CASH EQUIVALENTS, ENDING | \$ 2,967,779 | \$ 201,701 | \$ 3,169,480 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES | | | |
| Operating Loss | \$ 534,563 | \$ (4,142) | \$ 530,421 |
| Change in Assets and Liabilities: | | | |
| Accounts Receivable | 453,944 | - | 453,944 |
| Incurred But Not Reported Claims | 55,917 | 194 | 56,111 |
| NET CASH FROM OPERATING ACTIVITIES | \$ 1,044,424 | \$ (3,948) | \$ 1,040,476 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

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

| | Federal CFDA Number | | Expenditures |
|--|---------------------------|------------|----------------------|
| U.S. Department of Agriculture: | | | |
| Pass-Through the S.D. Department of Education: | | | |
| S.D. Department of Education: | | | |
| Child Nutrition Cluster: | | | |
| Cash Assistance: | | | |
| School Breakfast Program (Note 2) | 10.553 | \$ 118,329 | |
| National School Lunch Program (Note 2) | 10.555 | 555,278 | |
| Cash Assistance Subtotal | | 673,607 | |
| Non-Cash Assistance (Commodities): | | | |
| National School Lunch Program (Note 2) | 10.555 | 109,800 | |
| Total for Child Nutrition Cluster | | | \$ 783,407 |
| Child and Adult Care Food Program (Note 2) | 10.558 | | 23,835 |
| Total U.S. Department of Agriculture | | | 807,242 |
| U.S. Department of Justice: | | | |
| Title V - Delinquency Prevention Program | 16.548 | | 62,185 |
| Total U.S. Department of Justice | | | 62,185 |
| U.S. Department of Labor: | | | |
| Trade Adjustment Assistance Community College and Career | | | |
| Training (TAACCCT) Grants (Note 3) | 17.282 | | 1,670,754 |
| Total U.S. Department of Labor | | | 1,670,754 |
| General Services Administration: | | | |
| Pass-Through the S.D. Federal Property Agency: | | | |
| Donation of Federal Surplus Personal Property (Note 6) | 39.003 | | 88,872 |
| Total General Services Administration | | | 88,872 |
| National Foundation of the Arts and Humanities: | | | |
| Pass-Through the S.D. Department of Tourism: | | | |
| Promotion of the Arts - Partnership Agreements | 45.025 | | 3,092 |
| Total National Foundation of the Arts and Humanities | | | 3,092 |
| U.S. Department of Education: | | | |
| Direct Federal Funding: | | | |
| Student Financial Assistance Programs Cluster: | | | |
| Federal Supplemental Educational Opportunity Grants (FSEOG) (Note 3) | 84.007 | 111,667 | |
| Federal Work Study Program (FWS) (Note 3) | 84.033 | 48,091 | |
| Federal Perkins Loan Program (FPL) - Federal Capital | | | |
| Contributions (Notes 3 and 5) | 84.038 | 989,875 | |
| Federal Pell Grant Program (PELL) (Note 3) | 84.063 | 2,832,262 | |
| Federal Direct Student Loans (Direct Loan) (Notes 3 and 4) | 84.268 | 7,490,645 | |
| Total for Student Financial Assistance Programs Cluster | | | 11,472,540 |
| Indirect Federal Funding: | | | |
| S.D. Department of Education: | | | |
| Title I, Part A (Note 3) | 84.010 | | 497,906 |
| Migrant Education - State Grant Program (Note 3) | 84.011 | | 234,873 |
| Career and Technical Education - Basic Grants to States | 84.048 | | 409,454 |
| Improving Teacher Quality State Grants | 84.367 | | 266,199 |
| School Improvement Grants | 84.377 | | 290,894 |
| Special Education Cluster: | | | |
| Special Education - Grants to States (Notes 2 and 3) | 84.027 | 589,460 | |
| Special Education - Pre-school Grants (Notes 2 and 3) | 84.173 | 11,208 | |
| Total for Special Education Cluster | | | 600,668 |
| Total U.S. Department of Education | | | 13,772,534 |
| U.S. Department of Homeland Security: | | | |
| Indirect Federal Funding: | | | |
| S.D. Department of Public Safety: | | | |
| Homeland Security Grant Program | 97.067 | | 19,274 |
| Total U.S. Department of Homeland Security | | | 19,274 |
| Grand Total | | | \$ 16,423,953 |

WATERTOWN SCHOOL DISTRICT NO. 14-4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended June 30, 2014

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: This represents a major federal financial assistance program.

Note 4: Loans guaranteed under federal guarantee loan programs and issued to parents of eligible students or eligible students attending this vocational technical school had the following values:

| | |
|--|--------------|
| Federal Direct Student Loans, unsubsidized | \$ 3,875,666 |
| Federal Direct Student Loans, subsidized | 3,388,481 |
| Federal Direct PLUS Loans | 226,498 |

A private nonprofit corporation acts as the guarantee agency in the State of South Dakota.

Note 5: Federally funded loan programs had the following current fiscal year disbursement and outstanding loan balances at year end:

| | Federal CFDA Number | Administrative Expenses | Loan Disbursement | Loan Balance June 30, 2014 |
|---------------|---------------------------|----------------------------|----------------------|-------------------------------|
| Perkins Loans | 84.038 | \$ 15,215 | \$ 271,600 | \$ 974,660 |

Note 6: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the District. Original acquisition cost is provided by Federal Surplus Property. It is not what the school actually paid for the item.