

INDEPENDENT SCHOOL DISTRICT NO. 518

FINANCIAL STATEMENTS
AS OF JUNE 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 518

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INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2013

Mr. Linden Olson	December 31, 2016	Chairman
Mr. Mark Shepherd	December 31, 2014	Vice-Chairman
Ms. Lori Dudley	December 31, 2014	Clerk
Mr. Stephen Schneider	December 31, 2016	Treasurer
Mr. Joel Lorenz	December 31, 2016	Director
Mr. Scott Rosenberg	December 31, 2014	Director
Mr. Bradley Shaffer	December 31, 2016	Director
Mr. John Landgaard		Superintendent
Mr. David Skog		Director of Management Services

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MARILYN B. McDOWELL, CPA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 518 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information the District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 15 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-19 and 59-75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Dealan Kishang Heston & Co., P.A.

Worthington, Minnesota
September 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

This section of Worthington Schools - Independent School District 518's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain comparative information between the current year (2012-2013) and the prior year (2011-2012) is presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year include the following:

- Net position increased 22.7% over the prior year.
- Overall actual revenues in the Statement of Activities were more than \$36,124,000 and slightly over \$3,474,380 more than expenses.
- The District's General Fund unassigned fund balance (under the governmental fund presentation) increased \$71,311 from the prior year compared to a projected increase of \$280,191. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections.
- Through the support of community businesses and organizations the District purchased and installed message and video boards at the High School.
- The original basketball standards at the High School main gymnasium were replaced.
- The Middle School varsity baseball field playing surface was renovated at a cost of \$40,000
- In preparation for the 2013-14 student implementation of the iPad learning device initiative, iPads were purchased and issued to teachers at a cost of \$250,000

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Organization of Independent School District No. 518's Annual Financial Report

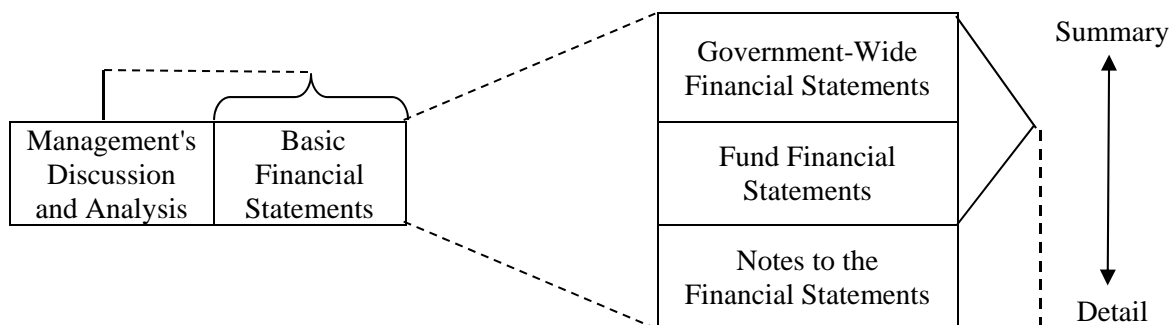


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2			
Major Features of the District-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance, food service, and community education	Instances in which the District administers resources on behalf of someone else, such as residential program, and integration collaborative
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Statements (continued)

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities":

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

Fund Financial Statements

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

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

The District maintains two kinds of funds:

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

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (continued)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$18,767,673 on June 30, 2013. This was an increase of 22.7% from the prior year. (See Table A-1.)

Table A-1
Independent School District No. 518
Net Position- Governmental Activities
As of June 30

	2013	2012
Current and other assets	\$ 24,212,057	\$ 21,477,965
Capital assets	27,037,346	27,447,444
Total assets	<u>\$ 51,249,403</u>	<u>\$ 48,925,409</u>
Long-term liabilities	\$ 23,640,841	\$ 25,278,039
Other liabilities	5,277,549	4,857,621
Total liabilities	<u>\$ 28,918,390</u>	<u>\$ 30,135,660</u>
Deferred Inflows of Resources	<u>\$ 3,563,340</u>	<u>\$ 3,496,456</u>
Net Position		
Net investment in capital assets	\$ 3,433,115	\$ 2,996,705
Restricted	2,675,281	1,484,858
Unrestricted	12,659,277	10,811,730
Total net position	<u><u>\$ 18,767,673</u></u>	<u><u>\$ 15,293,293</u></u>

The District's financial position increased during the year. Several factors contributed to this increase:

- The continued enrollment revenue increases exceed expenditure increases.
- The voter approved operating referendum continues to provide increased revenue.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in net position. The District's total revenues were \$36,127,952 for the year ended June 30, 2013. Property taxes and state formula aid accounted for 63.42% of total revenue for the year. (See Figure A-3.) Another 0.10% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$32,643,504. The District's expenses are predominantly related to educating and caring for students (78.82%). (See Figure A-4.) The purely administrative activities of the District accounted for just 2.56% of total costs.

Total revenues exceeded expenditures, increasing net position \$3,474,380 from last year.

Table A-2
Independent School District No. 518
Change in net position
For the year ended June 30

	2013	2012
Revenues		
Program revenues		
Charges for services	\$ 1,052,448	\$ 1,125,913
Operating grants and contributions	11,662,940	10,420,934
Capital grants and contributions	464,925	706,086
General revenues		
Property taxes	5,078,378	3,983,954
State aid - formula grants	17,832,201	17,016,159
Other	37,060	10,102
Total revenues	<u>\$ 36,127,952</u>	<u>\$ 33,263,148</u>
Expenses		
District and school administration	\$ 837,094	\$ 828,349
District support services	400,645	413,536
Regular instruction	14,243,727	12,185,257
Exceptional instruction	5,064,395	4,989,826
Vocational instruction	492,615	506,410
Instructional support services	2,051,362	2,096,398
Pupil support services	3,897,712	3,683,682
Site, buildings and equipment	3,188,498	4,768,779
Fiscal and other fixed cost programs	1,053,156	1,166,644
Community education and services	1,414,300	1,454,841
Total expenses	<u>\$ 32,643,504</u>	<u>\$ 32,093,722</u>
Change in net position before special item	\$ 3,484,448	\$ 1,169,426
Special items	(10,068)	(70,365)
Increase (decrease) in net position	<u>\$ 3,474,380</u>	<u>\$ 1,099,061</u>
Net position - June 30	<u><u>\$ 18,767,673</u></u>	<u><u>\$ 15,293,293</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2013

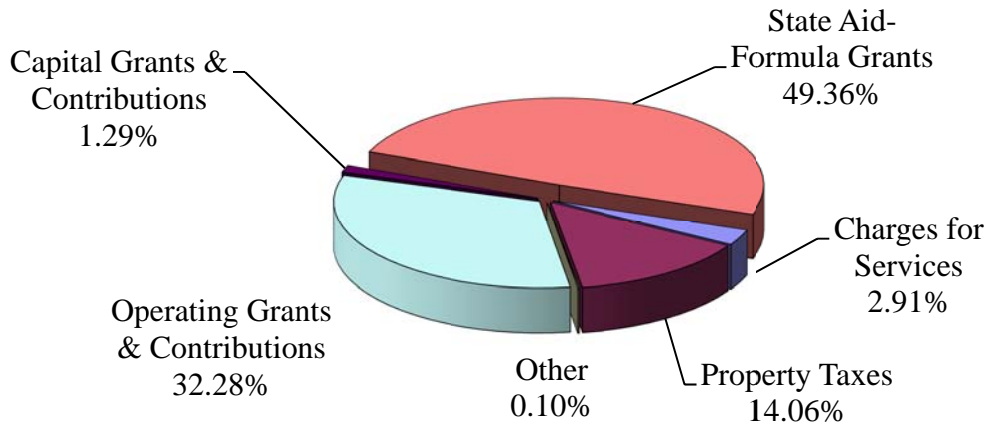
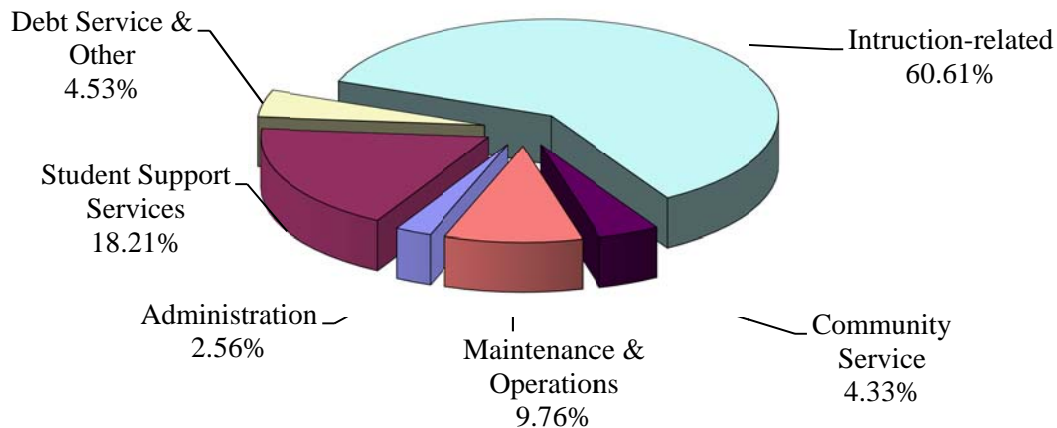


Figure A-4 Independent School District 518's Expenses for Fiscal Year 2013



- The cost of all governmental activities this year was \$32,643,504.
- Some of the cost was paid by the users of the District's programs (\$1,052,448).
- The federal and state governments subsidized certain programs with grants and contributions (\$11,662,940).
- Most of the District's costs (\$19,955,774), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$5,078,378 in property taxes, \$17,832,201 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-3
Independent School District No. 518
Net cost of governmental activities
For the year ended June 30, 2013

	2013		2012
	Total cost of services	Net cost of services	Net cost of services
District and school administration	\$ 837,094	\$ 837,094	\$ 828,276
District support services	400,645	393,730	399,067
Regular instruction	14,243,727	8,801,399	7,119,531
Exceptional instruction	5,064,395	1,421,171	2,155,029
Vocational instruction	492,615	492,145	506,335
Instructional support services	2,051,362	1,902,447	2,067,426
Pupil support services	3,897,712	1,746,795	1,658,680
Site, buildings and equipment	3,188,498	2,661,869	3,796,052
Fiscal and other fixed cost programs	1,053,156	1,053,156	1,166,644
Community education and services	1,414,300	153,385	143,749
Total	<u>\$ 32,643,504</u>	<u>\$ 19,463,191</u>	<u>\$ 19,840,789</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$17,412,542, an increase of \$2,270,081 from the June 30, 2012 combined fund balance of \$15,142,461, or a 14.99% increase.

Revenues for the District's governmental funds were \$36,124,076, while total expenditures were \$33,854,496, including the capital project expenditures of \$872,580.

General Fund

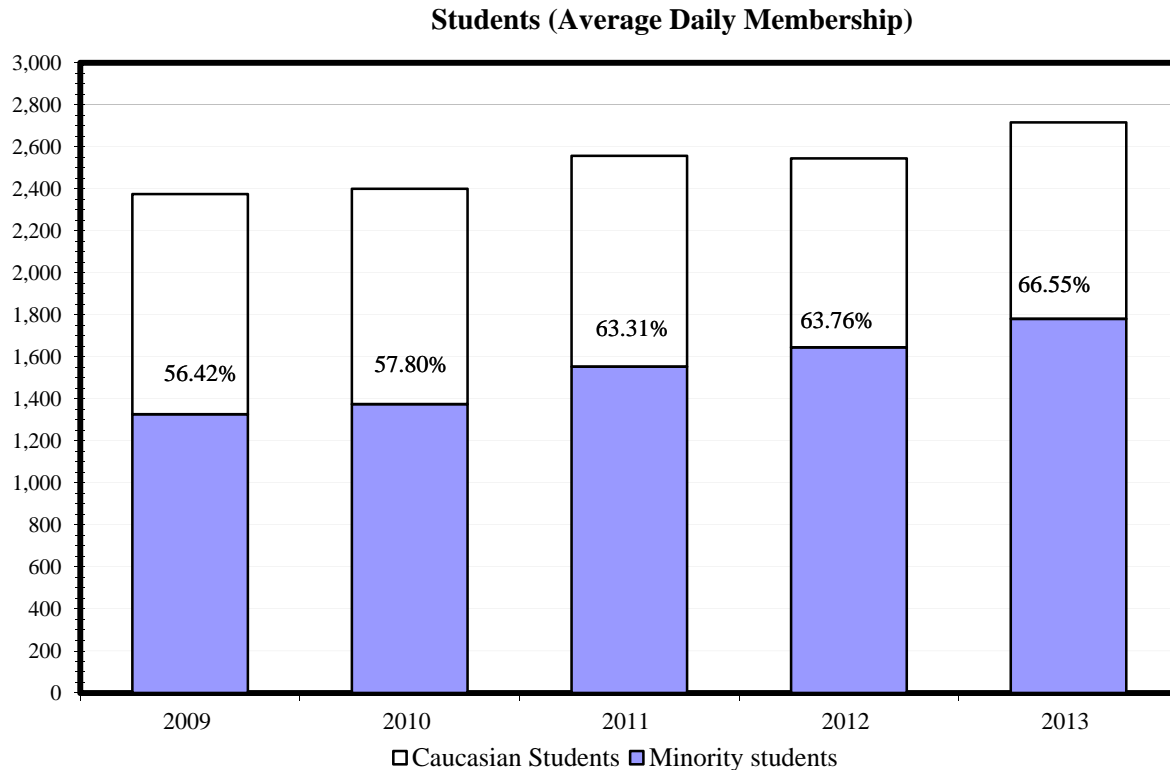
The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows that the total number of students has fluctuated over the last few years, while the number of minority students has increased.



Over the past few years, the District has seen an increasing enrollment. Based on the District's birth to age 5 census counts, we anticipate enrollment increases the next few years. Resident students who previously open enrolled to surrounding districts are returning to the district along with other students who are residents of those surrounding districts.

Our minority student increased percentage required the District to add several licensed and non-licensed staff to assist students in becoming proficient in English language and attempt to meet the adequate yearly progress requirements.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund revenues (including operating, pupil transportation, and capital expenditure accounts).

	Year ended June 30, 2012	Year ended June 30, 2013	Amount of increase (decrease)	Percent increase (decrease)
Local Sources				
Property taxes	\$ 2,213,828	\$ 2,620,762	\$ 406,934	18.38%
Interest earnings	5,094	13,533	8,439	165.67%
Other	887,445	734,794	(152,651)	(17.20%)
State sources	24,031,333	26,133,622	2,102,289	8.75%
Federal sources	1,256,020	1,071,309	(184,711)	(14.71%)
Total revenues	\$ 28,393,720	\$ 30,574,020	\$ 2,180,300	7.68%
Other financing sources				
Land and equipment sales	1,552	501	(1,051)	(67.72%)
Total	<u>\$ 28,395,272</u>	<u>\$ 30,574,521</u>	<u>\$ 2,179,249</u>	7.67%

Total General Fund revenue increased by \$2,179,249 or 7.67% from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue including excess levy referendum and the property tax shift involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The property tax increase resulted in part from the board of education's decision to reduce the payable 2011 levy which was recognized in the year ended June 30, 2012. State source revenue increased due to increased enrollment along with the \$50 increase on the formula amount and new literacy incentive aid.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund Expenditures (including operating, pupil transportation, and capital expenditure accounts).

	Year ended June 30, 2012	Year ended June 30, 2013	Amount of increase (decrease)	Percent increase (decrease)
Salaries	\$ 16,700,213	\$ 17,163,744	\$ 463,531	2.78%
Benefits	4,406,802	5,056,026	649,224	14.73%
Purchased Services	3,484,855	3,702,587	217,732	6.25%
Supplies, Materials, and Equipment	2,951,486	2,138,738	(812,748)	(27.54%)
Other	582,188	490,735	(91,453)	(15.71%)
Total	<u>\$ 28,125,544</u>	<u>\$ 28,551,830</u>	<u>\$ 426,286</u>	1.52%

Total General Fund expenditures increased \$426,286 or 1.52% from the previous year.

In fiscal 2013, salaries increased 2.78% with the addition of staff to meet the needs of increased enrollment. Employee benefits increased by 14.73% from the enrollment increase, increased retirement contribution rates, recognition of retirement incentive expense, and insurance costs. The District continues to investigate cost containment measures to minimize the effect rising insurance premiums have on the costs of the District's employee compensation packages.

Transportation costs increased due to the enrollment increase.

In 2012-2013, General Fund revenues and other financing sources exceeded expenditures by \$2,721,906. Therefore, total fund balance increased to \$14,945,713 at June 30, 2013. After deducting statutory restrictions, the unassigned fund balance increased from \$10,339,754 at June 30, 2012 to \$10,411,065 at June 30, 2013.

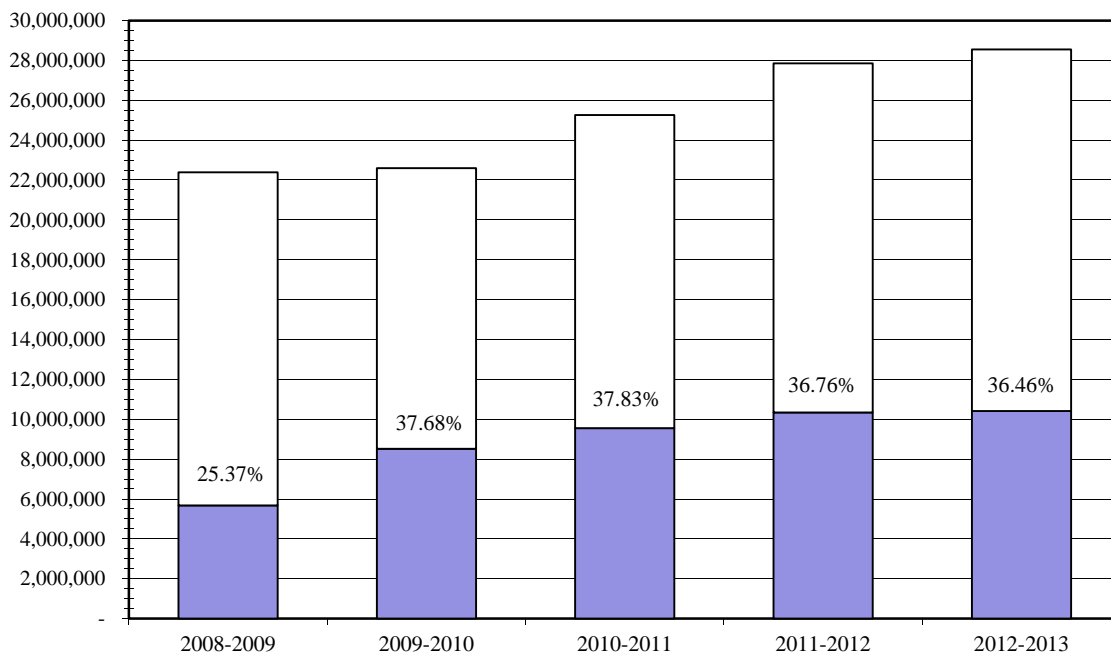
INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures.

**General Fund Unassigned Fund Balance as a
Percent of Expenditures**



The graph above is the single best measure of overall financial health. The unassigned fund balance of \$10,411,065 at June 30, 2013, represents 36.46% of annual expenditures or nearly nineteen weeks of operations. Given the current state funding legislation and other economic conditions, the District will continue to monitor its spending and fund balances closely.

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Unassigned fund balance	\$ 5,678,745	\$ 8,514,616	\$ 9,554,790	\$ 10,339,754	\$ 10,411,065
% Increase (decrease)	44.85%	49.94%	12.22%	8.22%	0.69%
Expenditures	\$ 22,387,167	\$ 22,598,242	\$ 25,257,304	\$ 28,125,544	\$ 28,551,830
% Increase (decrease)	2.77%	0.94%	11.77%	11.36%	1.52%

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund Budgetary Highlights

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

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

While the District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$17,330, the actual results for the year show that revenues and other financing sources exceeded expenditures and other financing uses by \$2,721,906 which included a transfer of the residual balance of \$699,716 for a capital project funded through certificates of participation.

- Actual revenues were \$926,239 more than expected, a variance of 3.12%, due to higher than estimated basic formula pupil units.
- The actual expenditures were \$1,113,781 under budget or a 3.75% variance.

Other Governmental Funds

The Debt Service Fund revenues exceeded expenditures by \$126,390 in 2012-2013. The fund balance increased to \$612,840 at June 30, 2013 and is available for meeting future debt service obligations.

The Food Service Fund revenues exceeded expenditures by \$118,927. The Food Service fund balance increased to \$434,691 or 26.12% of annual operating expenditures. Student lunch and breakfast prices have seen mandated increases in the past couple of years. Increased free and reduced lunch eligibility helps the Food Service fund to continue to operate on a sound financial basis.

The Community Service Fund revenues exceeded expenditures by \$1,350 leaving a year-end fund balance of \$138,529 or 9.64% of annual expenditures. The 21st Century Learning Center grant received in 2012 will provide for additional programs through the 2014 fiscal year.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested \$44,971,571 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-4.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$1,664,299.

Additional technology equipment, athletic facility renovation, building security entrance doors, custodial equipment, video and message boards, teaching staff iPads were among the capital asset additions for the year. Disposals included equipment no longer usable.

Table A-4
Independent School District No. 518

		Capital Assets	
		2013	2012
		Governmental Activities	Governmental Activities
Land		\$ 496,208	\$ 354,987
Land Improvements		2,172,762	2,074,800
Buildings		34,040,688	33,974,133
Equipment		8,017,708	7,328,995
Vehicles		244,205	238,435
Less accumulated depreciation		(17,934,225)	(16,523,906)
Total		<u>\$ 27,037,346</u>	<u>\$ 27,447,444</u>

Construction - Next Five Years

The School Board has authorized a building bond referendum request of \$38,975,000 to be placed on the November 5, 2013 election ballot for the purpose of constructing a new grades 3-5 intermediate school along with additions and renovation to the current High School and Prairie Elementary buildings.

Routine maintenance such as replacement of roofs, parking lots and building repairs will be funded through the General Fund.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt Administration

At June 30, 2013, the District had bonded debt of \$24,885,000. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation equal to 15% of the actual value of all taxable property within the District. The District is within its legal authority for bonded debt.

Long-term Liabilities

At year-end, the District had \$24,885,000 in general obligation bonds and certificates of participation payable outstanding.

- The District retired \$1,545,000 of outstanding bonds and other long-term debt during 2012-2013.

Bond Ratings

The District's general obligation bonds carry a rating of Aa1.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt of \$24,885,000 is significantly below this limit which is currently \$281,954,972.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Although there were still budget reductions in some areas, the success of this operating referendum made it possible for the School Board to increase total FTE teachers to accommodate projected enrollment increases and program changes for the 2013-2014 school year.

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. With the State of Minnesota facing significant budget problems any increased programming will need to be closely scrutinized for sustainability. The State of Minnesota will be making further modifications to the timing and magnitude of revenue recognition and state aid cash flows that will negatively affect the District's interest earnings.

To meet these financial challenges, the District will continue to utilize the Site Based Budgeting process. This process has been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

With the consolidation and closure of the neighboring districts high school the District entered into a tuition agreement with that combined district to serve their resident students in grades 9-12 who chose to enroll in our high school.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

The 2013 Minnesota Legislature approved significant changes to the methodology for calculating pupil unit based (formula) funding. As part of these changes a portion of operating referendum is tied to new revenue categories. The board of education has authorized a November 5, 2013 ballot question to revoke the final year of the existing referendum and replace it with a new 10 year operating referendum of equal amount.

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2012 and 2013, District 518 made gains in meeting AYP in some buildings and student groups while failing to meet AYP in areas such as Special Education, Free and Reduced and Limited English Proficiency in certain buildings. Areas considered to not be meeting AYP will be targeted for additional assistance in an effort to bring all groups and subgroups into compliance.

The District's Community Service fund was awarded grants for: 21st century community learning center of \$285,000 for fiscal year 2014 and a Department of Human Services Refugee Student Initiative Grant in the amount of \$50,000 for fiscal year 2014.

The District will continue implementing the one-to-one electronic learning device education system with the issuance of iPads to students in grades 3-8 during the 2013-14 school year and other identified students in the other grades in subsequent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administration Building:

Independent School District No. 518
1117 Marine Avenue
Worthington, Minnesota, 56187-1610

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION

JUNE 30, 2013

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2012)

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash and temporary investments	\$ 14,247,994	\$ 6,313,418
Receivables-		
Current property taxes	2,389,768	2,254,973
Delinquent property taxes	44,285	40,411
Due from other school districts and governmental units	266,734	190,740
Due from Department of Education	3,519,705	8,343,340
Due from federal government	434,579	506,301
Accounts and interest receivable	35,859	38,847
Inventory	109,025	107,195
Prepaid items	202,973	95,142
Restricted assets - temporarily restricted-		
Cash and investments for debt service	1,680,366	1,608,337
Cash and investments for construction	1,280,769	1,979,261
Capital assets (net of accumulated depreciation)-		
Land	496,208	354,987
Land improvements	1,593,535	1,593,850
Buildings	21,738,452	22,459,932
Equipment	3,096,339	2,929,173
Vehicles	112,812	109,502
Total assets	\$ <u>51,249,403</u>	\$ <u>48,925,409</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2013

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2012)

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
LIABILITIES:		
Accounts payable	\$ 340,384	\$ 198,765
Salaries and compensated absences payable	1,086,336	1,246,909
Accrued payroll taxes and other payroll deductions	1,796,069	1,232,592
Accrued interest payable	384,154	407,417
Due to other school districts and governmental units	14,644	171,718
Unearned revenue	17,874	21,232
Long-term liabilities-		
Due within one year	1,638,088	1,578,088
Due in more than one year	23,640,841	25,278,939
Total liabilities	<u>\$ 28,918,390</u>	<u>\$ 30,135,660</u>
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	<u>\$ 3,563,340</u>	<u>\$ 3,496,456</u>
NET POSITION:		
Net investment in capital assets	\$ 3,433,115	\$ 2,996,705
Restricted for-		
Debt service	612,840	486,450
Food service	434,691	315,764
Community service	138,529	137,179
Disabled accessibility	65,893	71,631
Capital projects	301,099	184,191
Area learning center	80,614	28,997
Health and safety	39,375	121,063
Other purposes	1,002,240	250,583
Unrestricted	<u>12,659,277</u>	<u>10,811,730</u>
Total net position	<u>\$ 18,767,673</u>	<u>\$ 15,293,293</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 51,249,403</u></u>	<u><u>\$ 48,925,409</u></u>

The accompanying notes are an integral part of these financial statements.

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS

GOVERNMENTAL FUNDS

JUNE 30, 2013

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2013	2012
ASSETS:							
Cash and investments	\$ 13,929,927	318,067	\$ -	\$ 1,280,769	\$ 1,680,366	\$ 17,209,129	\$ 9,901,016
Receivables-							
Current property taxes	1,364,734	-	83,205	-	941,829	2,389,768	2,254,973
Delinquent property taxes	28,159	-	1,149	-	14,977	44,285	40,411
Accounts and interest receivable	9,613	12,638	13,608	-	-	35,859	38,847
Due from other school districts and governmental units	\$ 177,591	-	89,143	-	-	266,734	190,740
Due from Department of Education-							
General education aid	2,794,182	-	-	-	-	2,794,182	7,440,097
Special education aid	626,583	-	-	-	-	626,583	625,216
Other education aid	56,292	-	28,472	-	-	84,764	187,099
Homestead/agricultural credit aid	1,945	-	233	-	3,161	5,339	64,786
Disparity aid	823	-	549	-	7,465	8,837	26,142
Due from federal government-							
Federal title programs	165,179	-	194,261	-	-	359,440	437,207
School lunch program	-	75,139	-	-	-	75,139	69,094
Due from other funds	119,674	-	-	-	-	119,674	166,937
Inventory	69,019	40,006	-	-	-	109,025	107,195
Prepaid items	197,018	270	5,685	-	-	202,973	95,142
Total assets	<u>\$ 19,540,739</u>	<u>446,120</u>	<u>\$ 416,305</u>	<u>\$ 1,280,769</u>	<u>\$ 2,647,798</u>	<u>\$ 24,331,731</u>	<u>\$ 21,644,902</u>
LIABILITIES:							
Salaries payable	\$ 1,022,919	\$ -	\$ -	\$ -	\$ -	\$ 1,022,919	\$ 1,174,330
Accrued payroll taxes and other payroll deductions	1,796,069	-	-	-	-	1,796,069	1,232,592
Accounts payable	\$ 273,641	1,101	65,642	-	-	340,384	198,765
Due to other school districts and governmental units	14,307	-	337	-	-	14,644	171,700
Due to other funds	-	-	119,674	-	-	119,674	166,937
Property tax shift adjustment	-	-	-	-	-	-	18
Unearned revenue	5,546	10,328	2,000	-	-	17,874	21,232
Total liabilities	<u>\$ 3,112,482</u>	<u>\$ 11,429</u>	<u>\$ 187,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,311,564</u>	<u>\$ 2,965,574</u>
DEFERRED INFLOWS OF RESOURCES:							
Property taxes levied for subsequent year's expenditures	\$ 1,454,385	\$ -	\$ 88,974	\$ -	\$ 2,019,981	\$ 3,563,340	\$ 3,496,456
Unavailable revenue - Delinquent taxes	28,159	-	1,149	-	14,977	44,285	40,411
Total deferred inflows of resources	<u>\$ 1,482,544</u>	<u>\$ -</u>	<u>\$ 90,123</u>	<u>\$ -</u>	<u>\$ 2,034,958</u>	<u>\$ 3,607,625</u>	<u>\$ 3,536,867</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2013

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2013	2012
FUND BALANCES:							
Nonspendable for-							
Nonspendable amounts	\$ 266,037	\$ 40,276	\$ 5,685	\$ -	\$ -	\$ 311,998	\$ 202,337
Restricted for-							
Operating capital	\$ 301,099	\$ -	\$ -	\$ -	\$ -	\$ 301,099	\$ 184,191
Health and safety	39,375	-	-	-	-	39,375	121,063
Disabled accessibility	65,893	-	-	-	-	65,893	71,631
Deferred maintenance	263,984	-	-	-	-	263,984	234,093
Gifted and talented	21,223	-	-	-	-	21,223	16,490
Area learning center	80,614	-	-	-	-	80,614	28,997
Safe schools	17,716	-	-	-	-	17,716	-
Food service	-	394,415	-	-	-	394,415	273,795
Community education	-	-	21,535	-	-	21,535	15,985
Adult basic education	-	-	72,871	-	-	72,871	85,746
School readiness	-	-	9,783	-	-	9,783	9,866
Early childhood family education	-	-	25,821	-	-	25,821	23,291
Certificates of participation	699,317	-	-	-	-	699,317	699,215
Alternative facilities	-	-	-	1,280,769	-	1,280,769	1,280,046
Debt service	-	-	-	-	612,840	612,840	486,450
Restricted for other purposes	-	-	2,834	-	-	2,834	2,291
Total restricted fund balances	\$ 1,489,221	\$ 394,415	\$ 132,844	\$ 1,280,769	\$ 612,840	\$ 3,910,089	\$ 3,533,150
Committed for-							
Separation	\$ 354,390	\$ -	\$ -	\$ -	\$ -	\$ 354,390	\$ 567,220
Projects	-	-	-	-	-	-	-
Total committed fund balances	\$ 354,390	\$ -	\$ -	\$ -	\$ -	\$ 354,390	\$ 567,220
Assigned for-							
Projects	\$ 2,425,000	\$ -	\$ -	\$ -	\$ -	\$ 2,425,000	\$ 500,000
Total assigned fund balances	\$ 2,425,000	\$ -	\$ -	\$ -	\$ -	\$ 2,425,000	\$ 500,000
Unassigned	\$ 10,411,065	-	\$ -	\$ -	\$ -	\$ 10,411,065	\$ 10,339,754
Total fund balances	\$ 14,945,713	\$ 434,691	\$ 138,529	\$ 1,280,769	\$ 612,840	\$ 17,412,542	\$ 15,142,461
Total liabilities, deferred inflows of resources	\$ 19,540,739	\$ 446,120	\$ 416,305	\$ 1,280,769	\$ 2,647,798	\$ 24,331,731	\$ 21,644,902
and fund balances							

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013
(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2012)

	<u>2013</u>	<u>2012</u>
Total fund balances - governmental funds	\$ 17,412,542	\$ 15,142,461
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	44,971,571	43,971,350
Less: accumulated depreciation	(17,934,225)	(16,523,906)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Bonds principal payable	(25,278,929)	(26,857,027)
Accrued compensated absences payable	(63,417)	(72,579)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
	44,285	40,411
Governmental funds do not report a liability for accrued interest until due and payable.		
	<u>(384,154)</u>	<u>(407,417)</u>
Total net position - governmental activities	<u>\$ 18,767,673</u>	<u>\$ 15,293,293</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2013	2012
REVENUES:							
Local property tax levies	\$ 2,620,762	\$ -	\$ 171,141	\$ -	\$ 2,247,776	\$ 5,039,679	\$ 3,945,307
Other local and county revenues	657,984	1,003	151,678	723	1,553	812,941	952,846
Revenues from state sources	26,133,622	72,900	730,938	-	78,131	27,015,591	25,009,643
Revenues from federal sources	1,071,309	1,266,629	384,974	-	-	2,722,912	2,923,176
Sales and other conversion of assets	49,064	442,480	130	-	-	491,674	407,806
Interdistrict revenues	41,279	-	-	-	-	41,279	24,992
Total revenues	<u>\$ 30,574,020</u>	<u>\$ 1,783,012</u>	<u>\$ 1,438,861</u>	<u>\$ 723</u>	<u>\$ 2,327,460</u>	<u>\$ 36,124,076</u>	<u>\$ 33,263,770</u>
EXPENDITURES:							
Current expenditures-							
District and school administration	\$ 835,357	\$ -	\$ -	\$ -	\$ -	\$ 835,357	\$ 831,943
District support services	403,019	-	-	-	-	403,019	409,854
Regular instruction	14,074,853	-	-	-	-	14,074,853	12,853,213
Vocational instruction	481,107	-	-	-	-	481,107	479,777
Exceptional instruction	5,034,261	-	-	-	-	5,034,261	4,963,203
Community education and services	-	-	1,429,826	-	-	1,429,826	1,477,408
Instructional support services	1,933,700	-	-	-	-	1,933,700	1,930,775
Pupil support services	2,206,388	1,664,085	7,685	-	-	3,878,158	3,823,276
Site and building services	2,257,118	-	-	-	-	2,257,118	1,920,524
Fiscal and other fixed cost programs	453,447	-	-	-	-	453,447	518,281
Capital outlay	872,580	-	-	-	-	872,580	2,530,103
Debt service-							
Principal	-	-	-	-	1,300,000	1,300,000	1,270,000
Interest and other financing costs	-	-	-	-	901,070	901,070	938,145
Total expenditures	<u>\$ 28,551,830</u>	<u>\$ 1,664,085</u>	<u>\$ 1,437,511</u>	<u>\$ -</u>	<u>\$ 2,201,070</u>	<u>\$ 33,854,496</u>	<u>\$ 33,946,502</u>
Excess of revenues over expenditures	<u>\$ 2,022,190</u>	<u>\$ 118,927</u>	<u>\$ 1,350</u>	<u>\$ 723</u>	<u>\$ 126,390</u>	<u>\$ 2,269,580</u>	<u>\$ (682,732)</u>
OTHER FINANCING SOURCES (USES):							
Transfer to (from) funds	\$ 699,215	\$ -	\$ -	\$ (699,215)	\$ -	\$ -	\$ -
Sale of capital assets	501	-	-	-	-	501	1,552
Total other financing sources (uses)	<u>\$ 699,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (699,215)</u>	<u>\$ -</u>	<u>\$ 501</u>	<u>\$ 1,552</u>
Net change in fund balances	<u>\$ 2,721,906</u>	<u>\$ 118,927</u>	<u>\$ 1,350</u>	<u>\$ (698,492)</u>	<u>\$ 126,390</u>	<u>\$ 2,270,081</u>	<u>\$ (681,180)</u>
FUND BALANCE, Beginning of year	<u>12,223,807</u>	<u>315,764</u>	<u>137,179</u>	<u>1,979,261</u>	<u>486,450</u>	<u>15,142,461</u>	<u>15,823,641</u>
FUND BALANCE, End of year	<u>\$ 14,945,713</u>	<u>\$ 434,691</u>	<u>\$ 138,529</u>	<u>\$ 1,280,769</u>	<u>\$ 612,840</u>	<u>\$ 17,412,542</u>	<u>\$ 15,142,461</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	<u>2013</u>	<u>2012</u>
Total net changes in fund balances - governmental funds	\$ 2,270,081	\$ (681,180)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital outlays	1,264,770	2,432,356
Depreciation expense	(1,664,299)	(2,159,200)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.	1,545,000	1,538,913
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	23,263	15,472
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	9,162	19,844
In the statement of activities, only the loss on disposal of capital assets is reported. However, in the governmental funds, proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.	(10,561)	(71,917)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	3,876	(623)
Governmental funds report debt premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported net of debt in the Government-wide financial statements.	<u>33,088</u>	<u>5,396</u>
Change in net position - governmental activities	<u>\$ 3,474,380</u>	<u>\$ 1,099,061</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund				Food Service Fund				Community Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final			Original	Final			Original	Final		
REVENUE:												
Local property tax levies	\$ 2,426,701	\$ 2,655,316	\$ 2,620,762	\$ (34,554)	\$ -	\$ -	\$ -	\$ -	\$ 168,544	\$ 168,544	\$ 171,141	\$ 2,597
Other local and county revenues	466,581	594,225	657,984	63,759	500	500	1,003	503	85,000	108,135	151,678	43,543
Revenues from state sources	25,340,198	25,127,190	26,133,622	1,006,432	84,300	83,600	72,900	(10,700)	725,619	719,933	730,938	11,005
Revenues from federal sources	629,500	1,265,550	1,071,309	(194,241)	1,219,000	1,247,700	1,266,629	18,929	387,000	416,937	384,974	(31,963)
Sales and other conversion of assets	5,500	5,500	49,064	43,564	408,500	412,100	442,480	30,380	-	-	130	130
Interdistrict revenues	-	-	41,279	41,279	-	-	-	-	-	-	-	-
Total revenues	\$ 28,868,480	\$ 29,647,781	\$ 30,574,020	\$ 926,239	\$ 1,712,300	\$ 1,743,900	\$ 1,783,012	\$ 39,112	\$ 1,366,163	\$ 1,413,549	\$ 1,438,861	\$ 25,312
EXPENDITURES:												
Current expenditures-												
District and school administration	\$ 856,274	\$ 870,461	\$ 835,357	\$ 35,104	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District support services	573,129	608,353	403,019	205,334	-	-	-	-	-	-	-	-
Regular instruction	13,579,457	14,348,987	14,074,853	274,134	-	-	-	-	-	-	-	-
Vocational instruction	461,600	461,600	481,107	(19,507)	-	-	-	-	-	-	-	-
Exceptional instruction	5,260,342	5,372,192	5,034,261	337,931	-	-	-	-	-	-	-	-
Community education and services	-	-	-	-	-	-	-	-	1,357,121	1,404,507	1,429,826	(25,319)
Instructional support services	2,036,051	2,054,051	1,933,700	120,351	-	-	-	-	-	-	-	-
Pupil support services	2,108,822	2,303,742	2,206,388	97,354	1,712,300	1,743,900	1,664,085	79,815	9,042	9,042	7,685	1,357
Site and building services	2,197,953	2,472,035	2,257,118	214,917	-	-	-	-	-	-	-	-
Fiscal and other fixed cost programs	488,372	454,648	453,447	1,201	-	-	-	-	-	-	-	-
Capital outlay	796,111	719,542	872,580	(153,038)	-	-	-	-	-	-	-	-
Total expenditures	\$ 28,358,111	\$ 29,665,611	\$ 28,551,830	\$ 1,113,781	\$ 1,712,300	\$ 1,743,900	\$ 1,664,085	\$ 79,815	\$ 1,366,163	\$ 1,413,549	\$ 1,437,511	\$ (23,962)
Excess (deficit) of revenues over (under) expenditures	\$ 510,369	\$ (17,830)	\$ 2,022,190	\$ 2,040,020	\$ -	\$ -	\$ 118,927	\$ 118,927	\$ -	\$ -	\$ 1,350	\$ 1,350
OTHER FINANCING SOURCES (USES):												
Transfer (to) from other funds	\$ -	\$ -	\$ 699,215	\$ 699,215	\$ -	\$ -	\$ -	\$ -	\$ 9,305	\$ -	\$ -	\$ -
Sale of capital assets	2,000	500	501	1	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ 2,000	\$ 500	\$ 699,716	\$ 699,216	\$ -	\$ -	\$ -	\$ -	\$ 9,305	\$ -	\$ -	\$ -
Net change in fund balances	\$ 512,369	\$ (17,330)	\$ 2,721,906	\$ 2,739,236	\$ -	\$ -	\$ 118,927	\$ 118,927	\$ 9,305	\$ -	\$ 1,350	\$ 1,350
FUND BALANCE, Beginning of year	12,223,807	12,223,807	12,223,807	-	315,764	315,764	315,764	-	137,179	137,179	137,179	-
FUND BALANCE, End of year	\$ 12,736,176	\$ 12,206,477	\$ 14,945,713	\$ 2,739,236	\$ 315,764	\$ 315,764	\$ 434,691	\$ 118,927	\$ 146,484	\$ 137,179	\$ 138,529	\$ 1,350

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	\$ 433,629	\$ 25,210
Receivables-		
Accounts receivable	<u>665</u>	<u>528</u>
Total assets	\$ <u>434,294</u>	\$ <u>25,738</u>

LIABILITIES AND NET POSITION

LIABILITIES:		
Salaries payable	\$ -	\$ 14,866
Accounts payable	5,837	1,537
Due to other school districts and governmental units	-	9,121
Unearned revenue	<u>-</u>	<u>214</u>
Total liabilities	\$ <u>5,837</u>	\$ <u>25,738</u>
NET POSITION:		
Held in trust	\$ <u><u>428,457</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Other local and county revenues-	
Interest income	\$ 112
Other local revenues	<u>174,794</u>
Total additions	<u>\$ 174,906</u>
DEDUCTIONS:	
Pupil support services	\$ <u>43,994</u>
Total deductions	<u>\$ 43,994</u>
Change in net position	\$ 130,912
NET POSITION, Beginning of year	<u>297,545</u>
NET POSITION, End of year	<u><u>\$ 428,457</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Reporting Entity-

Independent School District No. 518 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a seven-member school board elected by voters of the District to serve four year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Independent School District No. 518 is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the district.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the District is financially accountable.

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

b. Basic Financial Statement Presentation-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Basic Financial Statement Presentation (continued)-

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, investment trust, private-purpose trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third-party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

c. Measurement Focus and Basis of Accounting-

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus and Basis of Accounting (continued)-

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.
2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

Private Purpose Trust Funds are reported using the economic resources measurement focus. All fiduciary funds use the accrual basis of accounting as described earlier in these notes.

Description of Funds-

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report are as follows:

Major Governmental Funds-

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus and Basis of Accounting (continued)-

Description of Funds (continued)-

Major Governmental Funds (continued)-

Debt Service Funds – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation bond principal, interest, and related costs.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except for refunding bond issues, for which a separate refunding bond trust account has been established.

Fiduciary Fund Types-

Private Purpose Trust Fund – The Foundation Private Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties.

Agency Fund – Agency Funds are established to account for cash and other assets held by the District as the agent for others. These funds are used to account for the Nobles County Integration Collaborative.

d. Deferred Outflows/Inflows of Resources-

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District did not report any deferred outflows of resources for fiscal year 2013.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Deferred Outflows/Inflows of Resources (continued)-

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

e. Budgeting-

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects – Building Construction, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the school board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to the budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

Total Fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

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

At the end of each fiscal year, if the General Fund has a net unassigned deficit balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which includes certain restrictions specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of Education.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

f. Cash and Investments-

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Private Purpose Trust Funds are allocated directly to those funds/accounts.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations.

g. Accounts Receivable-

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

h. Inventories-

Inventories are recorded using the purchase method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

i. Prepaid Items-

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expenditure at the time of consumption.

j. Property Taxes-

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through the state credits which are included in revenue from state sources in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

j. Property Taxes (continued)-

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of the District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift".

In accordance with State Law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$75,873) advance recognized as revenue in fiscal 2013 with no corresponding state aid adjustment. Starting in fiscal year 2011, the tax shift was expanded to include all other General and Community Service Fund levies (net of credits). State aids were then reduced in fiscal year 2011 by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. This resulted in a significant increase in the advance recognition of tax revenue in the General Fund (and corresponding state aid holdback totaling \$274,612) but also included an advance recognition tax shift in the District's Community Service Fund (and corresponding state aid holdback totaling \$7,170). Since advance collections of Pay 2013 levy amounts at June 30, 2013, were sufficient to cover the amounts required to be advance recognized as revenue in fiscal 2013, the amount advance recognized was tax revenue. To the extent advance collections would have been insufficient to cover the amount to be advance recognized, state statute requires that fiscal 2013 general education aid be recognized. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary. has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2013 are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

k. Capital Assets-

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Capital Assets-

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

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

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

l. Long-Term Obligations-

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

m. Vacation Pay-

Under the terms of contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred in the district-wide and all fiduciary fund financial statements. Vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

n. Sick Pay-

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of retirement incentive payments for some employees upon termination.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

o. Postemployment Health Care Benefits-

In addition to retirement benefits, the District provides post retirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement.

p. Restricted Assets-

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

q. Fund Balance-

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties and are considered available only for the purpose for which they were received.

Committed – resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create funds for which resources are committed to the established purpose of that fund.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for the intended purpose.

Unassigned – residual fund balance within the general fund that is in spendable form and is not restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Risk Management-

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which it carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2013.

s. Net Position-

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

t. Comparative Financial Information-

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

u. Use of Estimates-

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

v. Reclassifications-

Certain amounts in the prior-year financial statement presentation have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

w. Date of Management's Review of Subsequent Events-

Management has evaluated subsequent events through September 30, 2013, the date which the financial statements were available to be issued.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

a. Excess of Expenditures Over Budget-

Expenditures exceeded the budget in the following funds at June 30, 2013:

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Community Service Fund	\$ 1,413,549	\$ 1,437,511	\$ 23,962

No remedial action is deemed necessary for the Community Service fund as the excess expenditures were in relation to revenues over budget as well.

b. Revenues Under Budget-

Revenues were below budgeted amounts in the following fund:

No funds had revenue under budget at June 30, 2013.

3. DEPOSITS AND INVESTMENTS:

a. Deposits-

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

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2013, none of the District's bank balance of \$13,444,416 was exposed to custodial credit risk. No amounts were uninsured or under collateralized.

b. Investments-

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District’s investments are potentially subject to various risks including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a broker) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- **Concentration risk** – Investing 5 percent or more of the District’s portfolio in the securities of a single issuer.
- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

The following table presents the District's investment balances at June 30, 2013, and information relating to potential investment risks:

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	<u>Carrying Value</u>
Investment pools/mutual funds					
Minnesota School District					
Liquid Asset Fund Plus	AAAm	S & P	1%	N/A	\$ 30,004
Minnesota School District					
Liquid Asset Fund Plus					
MAX Series	AAAm	S & P	99%	N/A	13,204,421
U.S. Treasury Money market					
mutual funds	N/A	N/A	N/A	N/A	-
Total investments					\$ 13,234,425
Nonparticipating certificates					
of deposits					4,694,616
Deposits					(261,073)
Total cash and investments					\$ <u>17,667,968</u>

N/A - Not applicable

N/R - Not rated

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments-statement of net assets	\$ 14,247,994
Cash and investments for debt service-restricted-statement of net assets	1,680,366
Cash and investments for construction-restricted-statement of net assets	1,280,769
Cash and temporary investments-statement of fiduciary net assets	<u>458,839</u>
	<u>\$ 17,667,968</u>

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2013, was as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 354,987	\$ 141,221	\$ -	\$ 496,208
Total capital assets, not depreciated	<u>\$ 354,987</u>	<u>\$ 141,221</u>	<u>\$ -</u>	<u>\$ 496,208</u>
Capital Assets, depreciated:				
Land improvements	\$ 2,074,800	\$ 97,962	\$ -	\$ 2,172,762
Buildings	33,974,133	66,555	-	34,040,688
Equipment and vehicles	<u>7,567,430</u>	<u>959,032</u>	<u>(264,549)</u>	<u>8,261,913</u>
Total capital assets, depreciated	<u>\$ 43,616,363</u>	<u>\$ 1,123,549</u>	<u>\$ (264,549)</u>	<u>\$ 44,475,363</u>
Less accumulated depreciation for:				
Land improvements	\$ (480,950)	\$ (98,277)	\$ -	\$ (579,227)
Buildings	(11,514,201)	(788,035)	-	(12,302,236)
Equipment and vehicles	<u>(4,528,756)</u>	<u>(777,987)</u>	<u>253,980</u>	<u>(5,052,763)</u>
Total accumulated depreciation	<u>\$ (16,523,906)</u>	<u>\$ (1,664,299)</u>	<u>\$ 253,980</u>	<u>\$ (17,934,226)</u>
Net capital assets, depreciated	<u>\$ 27,092,457</u>	<u>\$ (540,750)</u>	<u>\$ (10,569)</u>	<u>\$ 26,541,138</u>
Total capital assets, net	<u><u>\$ 27,447,444</u></u>	<u><u>\$ (399,529)</u></u>	<u><u>\$ (10,569)</u></u>	<u><u>\$ 27,037,346</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS (Continued):

Depreciation expense of \$1,664,299 for the year ended June 30, 2013, was charged to the following governmental functions:

Governmental Activities:

Administration	\$ 711
District support services	1,465
Regular instruction	514,483
Vocational instruction	9,841
Exceptional instruction	30,362
Community Service	16,557
Instructional support services	126,605
Pupil support services	27,654
Food service	26,002
Site, buildings and equipment	62,915
Unallocated	847,703
	<u>\$ 1,664,299</u>

6. LONG-TERM LIABILITIES:

a. General Obligation School Building Bonds and Certificates of Participation-

The District currently has the following general obligation school building bonds and Certificates of Participation outstanding:

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General Obligation Refunding School Building Bonds	3/1/2005	3.80%-5.00%	2/1/2024	\$ 13,080,000
General Obligation Alternative Facilities Building Bonds	1/7/2010	2.50%-4.30%	2/1/2030	7,325,000
General Obligation Alternative Facilities Building Bonds	1/7/2010	2.00%-3.75%	2/1/2024	875,000
Certificates of Participation	1/7/2010	2.20%-4.40%	4/1/2025	<u>3,605,000</u>
Total general obligation bonds				<u>\$ 24,885,000</u>

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105% of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Certificates of Participation are repaid through funds from the Leased Facility Levy and general operations energy savings.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM LIABILITIES (Continued):

a. General Obligation School Building Bonds and Certificates of Participation (continued)-

The General Obligation School Building Bonds require semiannual payments of principal and/or interest from the date the bonds were issued.

The Certificates of Participation require semiannual payments of principal and or interest from the date the bonds were issued. The portion of these certificates related to the energy savings improvements require monthly transfers to a separate debt service account.

b. Bond Premiums-

Bond premiums are amortized using the straight line method over the life of the bonds.

<u>Issue</u>	<u>Issue Date</u>	<u>Bond Premium</u>	<u>Final Maturity</u>	<u>2013 Amortization</u>
General Obligation Refunding School Building Bonds	3/1/2005	\$ 477,837	2/1/2024	\$ 25,282
General Obligation Alternative Facilities Building Bonds	1/7/2010	147,343	2/1/2030	7,337
General Obligation Capital Facilities Building Bonds	1/7/2010	6,582	2/1/2024	<u>469</u>
Total current year amortization				\$ <u>33,088</u>

c. Minimum Debt Payments-

Minimum annual principal and interest payments to maturity for general obligation school building bonds, capital leases and special assessments payable are as follows:

<u>Year Ending June 30 .</u>	<u>General Obligation School Building Bonds, Including Refunding Bonds</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,355,000	\$ 846,345	\$ 250,000	\$ 133,098
2015	1,415,000	788,795	255,000	126,848
2016	1,465,000	738,645	265,000	119,835
2017	1,520,000	684,920	270,000	111,885
2018	1,570,000	630,788	280,000	103,110
2019-2023	8,840,000	2,177,103	1,565,000	351,485
2024-2028	3,995,000	607,900	720,000	47,610
2029-2030	<u>1,120,000</u>	<u>72,120</u>	<u>-</u>	<u>-</u>
	<u>\$ 21,280,000</u>	<u>\$ 6,546,616</u>	<u>\$ 3,605,000</u>	<u>\$ 993,871</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM LIABILITIES (Continued):

d. Changes in Long-Term Liabilities-

	<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>
General obligation school building bonds	\$ 22,580,000	\$ -	\$ 1,300,000	\$ 21,280,000	\$ 1,355,000
Bond premium	427,027	-	33,088	393,939	33,088
Certificates of Participation	<u>3,850,000</u>	<u>-</u>	<u>245,000</u>	<u>3,605,000</u>	<u>250,000</u>
	<u>\$ 26,857,027</u>	<u>\$ -</u>	<u>\$ 1,578,088</u>	<u>\$ 25,278,929</u>	<u>\$ 1,638,088</u>

7. INTERFUND TRANSFERS:

The District had one interfund transfer of \$699,215 from the Capital Projects Fund to the General Fund.

8. RESTRICTED FUND BALANCES:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. A description of deficit balance restrictions is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted, Committed, and Assigned fund balances at June 30, 2013 are as follows:

Restricted for Area Learning Center-

Represents available resources to be used for students attending the area learning center.

Restricted for Health and Safety-

Represents available resources from the levy to be used for health and safety.

Restricted for Operating Capital-

The district levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

Restricted for Disabled Accessibility-

Represents available resources from the levy to be used for disabled accessibility.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Gifted and Talented-

Represents available resources from the levy to be used for gifted and talented programming in accordance with funding made available for that purpose.

Restricted for Safe Schools-

Represents available resources from the levy to be used for safe school.

Restricted for Deferred Maintenance-

Represents available resources from the levy or aid to be used for future deferred maintenance projects.

Restricted for Food Service-

Represents available resources to be used in providing food services to students.

Restricted for Community Education-

Represents accumulated resources available to provide general community education programming.

Restricted for Adult Basic Education-

Represents accumulated resources available to provide adult basic education services.

Restricted for School Readiness-

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

Restricted for Early Childhood Family Education-

Represents accumulated resources available to provide early childhood family education programming in accordance with funding made available for that purpose.

Restricted for Other Programs-

Represents that amount that can be spent only for specific purposes stipulated by constitutional, external resource providers, or through enabling legislation.

Restricted for Debt Service-

Represents available resources from the debt service levy available only for payment of outstanding debt and related expenses.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Alternative Facilities-

Represents available resources from the capital projects levy to be used for deferred maintenance.

Restricted for Certificates of Participation-

Represents resources available from issuance of certificates of participation.

Committed for Separation-

Represents amounts committed for severance, but not restricted.

Committed for Projects-

Represents amounts committed for projects, but not restricted.

Assigned for Projects-

Represents amounts assigned for projects, but are not restricted or committed.

9. OPERATING LEASES:

The District leases the facilities of the Armory Business Center, Worthington Hockey Arena, and Memorial Auditorium. The lease for the Armory Business Center was renewed through June 30, 2014, with additional one year renewal options. The renewal option allows the lessor to incorporate into the monthly rental cost increases related to utility rates, cost of snow removal, real estate taxes, or assessments for governmental projects. The lease for the Worthington Hockey Arena was renewed with a term of five years through June 30, 2018. The lease for the Memorial Auditorium was renewed for a term of one year, expiring on June 30, 2014. Rental expense for the year ended June 30, 2013, was \$29,101.

Future minimum lease payments at June 30, 2013, are as follows:

2014	\$	59,400
2015		23,500
2016		23,500
2017		24,000
2018		24,500
Thereafter		<u>-</u>
	\$	<u>154,900</u>

10. EARLY RETIREMENT INCENTIVE:

a. Teachers-

Full-time teachers who have not less than 30 years of full time teaching service or who are at least fifty-five years of age and have 15 total years of full time teaching service are eligible for severance pay pursuant to the provisions of the master contract upon submission of a written resignation accepted by the Board.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. EARLY RETIREMENT INCENTIVE (Continued):

a. Teachers (continued)-

Each full-time teacher will be paid up to a maximum of 100 days of any unused and accrued sick leave earned by that teacher while an employee of the District. The daily rate of pay is the basic daily rate at the time of retirement, as provided in the basic salary schedule (including career increment) for the basic school year, and does not include any additional compensation for extracurricular activities, extended employment or other extra compensation.

Payment will be contributed to a post-retirement health care savings plan sponsored by the District with half of the amount paid prior to September 1 of the year of separation and the remaining half will be paid prior to September 1 of the year following separation.

As of June 30, 2013, ten teachers met the requirements representing a potential commitment of approximately \$215,982 in severance pay if all would resign pursuant to the provisions of the master contract.

Severance pay is recorded as an expenditure when eligible employees retire. Severance pay expense for the year ended June 30, 2013, was \$221,267.

In 2013, a one time voluntary retirement incentive was offered by the District to teachers at least age 56 on June 30, 2013 who have at least 15 years of full time teaching service for the District as of the date of retirement and are actively employed by the District during the 2012-13 school year. At the deadline of February 1, 2013 fourteen teachers accepted the agreement which provides for a District contribution of up to \$5,000 per year to a post-retirement health care savings plan sponsored by the District until the retiree reaches the age of 65. In the year in which the retiree reaches the age of 65 this incentive will be prorated for the number of months from July 1 to the end of the month prior to the retiree's birthdate. This benefit will end should the employee die prior to reaching the age of 65 or before the end of the five year contribution period. Should the retiree reach the age of 65 before or during the first year of this agreement, that retiree will receive one year's full contribution. Incentive expense for the year ended June 30, 2013 was \$255,833.

b. Superintendent-

The Superintendent is eligible for severance pay after the Board receives a resignation. The amount of severance will be equal to the dollar amount per day of the existing contract times the number of accumulated sick leave days. The severance pay will be paid to the Superintendent according to timelines set by the Board.

As of June 30, 2013, there is a potential commitment of \$82,411 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of June 30, 2012.

a. Plan Description-

The District provides a single-employer defined benefit healthcare plan administered by the District which allows retirees to participate in that plan through contractual arrangement.

Post-Employment Medical Plan – All eligible retirees of the District have the option to continue their medical coverage into retirement. Retirees pay the full district premium rate for the coverage and dependent coverage if elected. When the retiree is eligible for coverage under Medicare, the District plan allows continued participation as a healthcare plan secondary to that Medicare coverage.

b. Funding Policy-

As of June 30, 2013, none of the employee bargaining unit contracts and employment agreements include a provision for a District contribution for post-employment healthcare plan premiums.

c. Annual OPEB Cost and Net OPEB Obligation-

The District's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the 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 paid from the plan, and the changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 65,161
Adjustment to Annual Required Contribution	<u>293</u>
Annual OPEB Cost (Expense)	\$ 65,454
Interest	(76)
Contributions made	<u>47,685</u>
Increase in Net OPEB Obligation	\$ 17,693
Net OPEB Obligation(Asset) – Beginning of Year	(7,608)
Net OPEB Obligation(Asset) – End of Year	<u>\$ 10,085</u>

d. Funded Status and Funding Progress-

As of July 1, 2012, the actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$750,552. The annual payroll for active employees enrolled in the plan was \$14,144,577 for a ratio of UAAL to covered payroll of 5.3%.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

d. Funded Status and Funding Progress-

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

e. Actuarial Methods and Assumptions-

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 1% discount rate which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8%, reduced by decrements to an ultimate rate of 3.0% after twelve years. The UAAL is being amortized as a level dollar on an open basis for the implicit liability and a closed basis for the explicit liability. The remaining amortization period at July 1, 2012 was not to exceed 30 years.

12. DEFINED BENEFIT PENSION PLANS STATEWIDE:

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans are as follows:

a. Teachers' Retirement Association (TRA)-

1. Plan Description-

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

a. Teachers' Retirement Association (TRA) (continued)-

1. Plan Description (continued)-

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

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

Tier I	Step Rate Formula	Percentage
Basic	1 st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 st ten years if service years are July 1, 2006, or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006, or after	1.9 percent per year

With these provisions-

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

or

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006, and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

a. Teachers' Retirement Association (TRA) (continued)-

1. Plan Description (continued)-

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA web site www.minnesotatira.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

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

2. Funding Policy-

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0 percent and 9.5 percent, respectively, of their annual covered salary during fiscal year 2012 as employee contributions. The employer contribution rates are 6.0 percent for Coordinated members and 10.0 percent for Basic members during fiscal year 2012. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2012, was approximately \$3.87 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2011 and June 30, 2010 were \$3.84 billion and \$3.79 billion, respectively.

The District contributions for the years ended June 30, 2013, 2012 and 2011, were \$868,344, \$779,244 and \$690,232, respectively, equal to the required contributions for each year as set by State Statute.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

a. Teachers' Retirement Association (TRA) (continued)-

2. Funding Policy (continued)-

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

b. Public Employees Retirement Association (PERA)-

1. Plan Description-

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of the average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

b. Public Employees Retirement Association (PERA) (continued)-

1. Plan Description (continued)-

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the internet at www.mnpera.org or by writing to PERA:

Public Employee's Retirement Association
60 Empire Drive, #200
St. Paul, Minnesota, 55103-2088
651-296-7460 or 800-652-9026

2. Funding Policy-

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.00 percent, respectively, of their annual covered salary in 2012. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members and 7.25 percent for Coordinated Plan GERS members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2013, 2012 and 2011 were \$360,583, \$360,002, and \$334,813, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

13. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE:

School board members of the District are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE (Continued):

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2013 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$1,262	\$1,262	5.0%	5.0%	5.0%

14. JOINT VENTURES:

a. Cable Channel 3 Television-

The District and the City of Worthington, Minnesota, entered into a joint powers agreement for the purposes of operating Worthington Cable 3 Television Public Access Channel on January 1, 1998. The agreement was amended as of March 1, 2002. The amended agreement includes Minnesota West Community and Technical College. The agreement provides that the District shall provide the Board with studio space for the operation of Cable Channel 3, shall contribute equipment that was located in the studio at the time of the agreement and an annual sum of no less than \$8,800. The City of Worthington, Minnesota, shall remit to the Board all franchise fees and subscriber payments which are collected by two local cable companies pursuant to the Franchise Agreement between the City, and the respective cable companies, except that the City will retain an amount equal to the amount expended by the City during the prior calendar year for cable franchise expenses, including attorney fees. In addition, the City will contribute to the Board all of the equipment owned by the City and currently located at the Senior High School television studio. The Minnesota West Community and Technical College will provide the Board with use of all broadcast time on the cable public access channel which had been previously reserved as the College's television time per month, with certain exceptions detailed in the agreement. In addition, the College shall make an annual payment of at least \$3,000 to the Board. The amounts remitted by the three participants approximates the amount budgeted by the Board, and no material surplus or deficit exists or is anticipated. The fiscal year of Cable Channel 3 is January 1st to December 31st. Audited financial statements were not available for the year ended December 31, 2012. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. JOINT VENTURES (Continued):

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District Nos. 513/516-Brewster/Round Lake, Independent School District No. 514-Ellsworth, and Independent School District No. 505-Fulda entered into a joint powers agreement for the purpose of implementing the Nobles County Multi-District Integration Plan which was drafted by the Nobles County Multi-District Integration Council and submitted to the State of Minnesota in January, 2001. The Districts' shall transfer to the Board the initial and subsequent desegregation funds as established at the conception of the agreement. Grants received from private foundations, corporate donations, regional, state and federal grants relating to the implementation of the plan will be used in addition to the member districts' transfers to finance the program. Any surplus is returned to member districts' at the end of the fiscal year; therefore, no material surplus or deficit exists or is anticipated. Independent School District No. 518-Worthington was named the fiscal agent for the Collaborative and the audited financial information appears as an agency fund in these financial statements.

15. RELATED PARTY TRANSACTIONS:

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. The amounts of such transactions are not material to the financial statements.

16. COMMITMENTS AND CONTINGENCIES:

a. Grants and Aids-

The District receives significant financial assistance from numerous federal, state and local government agencies in the form of grants and aid. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

b. Legal Claims-

The District has the usual and customary types of miscellaneous legal claims pending at year end, mostly of a minor nature and usually covered by insurance carried for that purpose.

17. CHANGES IN ACCOUNTING PRINCIPLES:

GASB Statement Number 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the District's financial statements

GASB Statement Number 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. CHANGES IN ACCOUNTING PRINCIPLES (Continued):

GASB Statement Number 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 2,655,316	\$ 2,346,150	\$ (309,166)	\$ 2,090,966
Property tax shift	-	274,612	274,612	122,862
Total local property tax levies	\$ 2,655,316	\$ 2,620,762	\$ (34,554)	\$ 2,213,828
Other local and county revenues-				
County apportionment	\$ 23,000	\$ 29,541	\$ 6,541	\$ 28,002
Tuition and fees from patrons	155,800	166,678	10,878	157,136
Interest income	6,500	13,533	7,033	5,094
Microsoft litigation settlement	126,500	126,523	23	-
Other local revenue	282,425	321,709	39,284	665,126
Total other local and county revenues	\$ 594,225	\$ 657,984	\$ 63,759	\$ 855,358
Revenues from state sources-				
Endowment fund apportionment	\$ 78,945	\$ 78,913	\$ (32)	\$ 75,934
Department of Education aids-				
General education aid	22,590,763	22,698,575	107,812	21,361,997
Special education	2,100,000	2,960,010	860,010	2,193,275
Vocational and other education	357,482	375,570	18,088	353,269
Other appropriations by the state for replacement of local taxes-				
Homestead and agricultural credit aid	-	6,055	6,055	30,223
Disparity reduction aid and other	-	14,499	14,499	16,635
Total revenues from state sources	\$ 25,127,190	\$ 26,133,622	\$ 1,006,432	\$ 24,031,333
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 705,430	\$ 561,740	\$ (143,690)	\$ 755,272
Federal aids through SWWC cooperative	560,120	509,569	(50,551)	500,748
Total revenues from federal sources	\$ 1,265,550	\$ 1,071,309	\$ (194,241)	\$ 1,256,020
Sales and other conversion of assets-				
Sales of materials and supplies	\$ 5,500	\$ 49,064	\$ 43,564	\$ 12,189
Tuition revenue from other school districts	\$ -	\$ 41,279	\$ 41,279	\$ 24,992
Total revenues	\$ 29,647,781	\$ 30,574,020	\$ 926,239	\$ 28,393,720

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	\$ 32,375	\$ 30,798	\$ 1,577	\$ 29,333
Employee benefits	5,023	6,507	(1,484)	5,574
Travel	7,800	4,792	3,008	4,431
Other	51,417	48,438	2,979	20,891
General administration-				
Superintendent salary	147,980	147,981	(1)	145,177
Administrative support salaries	37,000	36,550	450	36,239
Employee benefits	42,732	42,034	698	40,341
Travel	4,000	2,985	1,015	2,567
Other	3,500	4,144	(644)	1,910
Building administration-				
Salaries	315,854	315,820	34	303,470
Employee benefits	97,833	99,513	(1,680)	139,843
Travel	785	464	321	8,133
Purchased services	94,525	74,103	20,422	70,881
Supplies and materials	22,687	15,265	7,422	17,469
Other	6,950	5,963	987	5,684
Total district and school administration \$	<u>870,461</u>	<u>\$ 835,357</u>	<u>\$ 35,104</u>	<u>\$ 831,943</u>
District support services-				
District business services-				
Director of finance and personnel salary	\$ 77,250	\$ 73,450	\$ 3,800	\$ 72,194
Administrative support salaries	172,236	164,837	7,399	168,245
Employee benefits	113,601	81,254	32,347	81,941
Travel	3,800	3,479	321	6,637
Purchased services	41,450	11,478	29,972	5,864
Supplies and materials	7,500	4,252	3,248	2,864
Other	25,296	-	25,296	-

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Contracted services-				
Printing and publishing	\$ 44,950	\$ 18,095	\$ 26,855	\$ 22,075
Legal	30,000	2,357	27,643	2,374
Data processing	88,500	42,655	45,845	44,890
Other	1,000	-	1,000	-
Supplies and materials	2,770	-	2,770	2,770
Total district support services	\$ 608,353	\$ 403,019	\$ 205,334	\$ 409,854
Regular instruction-				
Salaries-				
Secondary teachers	\$ 3,972,130	\$ 4,114,439	\$ (142,309)	\$ 3,911,596
Elementary teachers	4,089,142	3,954,118	135,024	3,780,965
Kindergarten teachers	528,275	522,868	5,407	509,300
Education aides	751,737	750,203	1,534	707,474
Other	172,930	177,474	(4,544)	162,721
Employee benefits	2,981,765	2,793,951	187,814	2,305,281
Travel	63,815	30,260	33,555	54,508
Purchased services	129,796	150,320	(20,524)	158,515
Tuition to other schools	79,050	70,207	8,843	84,652
Pupil transportation	37,035	41,927	(4,892)	45,935
General supplies and materials	385,571	159,470	226,101	123,668
Instructional supplies and materials	216,597	151,121	65,476	169,434
Textbooks	163,333	84,663	78,670	8,957
Other	53,105	352,523	(299,418)	103,402
Capital outlay	244,675	194,330	50,345	257,241
Student activities-				
Salaries	361,732	354,346	7,386	343,638
Employee benefits	107,023	104,278	2,745	53,757
Travel	6,015	6,836	(821)	6,874
Utilities	9,000	7,660	1,340	5,867

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities (continued)-				
Purchased services	\$ 93,340	\$ 110,499	\$ (17,159)	\$ 134,715
Pupil transportation	97,621	92,677	4,944	126,251
General supplies and materials	36,725	38,888	(2,163)	39,574
Equipment purchased	10,020	2,935	7,085	12,899
Other	3,230	3,190	40	3,230
Capital outlay	53,115	47,784	5,331	15,013
Total regular instruction	\$ 14,646,777	\$ 14,316,967	\$ 329,810	\$ 13,125,467
Vocational instruction-				
Salaries	\$ 335,969	\$ 336,258	\$ (289)	\$ 335,912
Employee benefits	88,619	94,089	(5,470)	91,271
Travel	1,575	3,769	(2,194)	2,256
Purchased services	-	797	(797)	666
Pupil transportation	7,300	9,345	(2,045)	9,335
Tuition to other schools	12,525	18,899	(6,374)	15,038
General supplies and materials	2,200	1,754	446	6,337
Instructional supplies and materials	12,012	10,753	1,259	13,223
Other	1,400	5,443	(4,043)	5,739
Capital outlay	-	1,667	(1,667)	15,566
Total vocational instruction	\$ 461,600	\$ 482,774	\$ (21,174)	\$ 495,343
Exceptional instruction-				
Salaries-				
Teachers	\$ 2,286,774	\$ 2,157,183	\$ 129,591	\$ 2,247,869
Psychologists	135,429	136,003	(574)	131,198
Aides	1,531,218	1,315,881	215,337	1,307,584
Office	111,365	98,042	13,323	106,485
Employee benefits	1,174,871	1,163,063	11,808	1,030,992
Travel	19,910	21,511	(1,601)	13,781
Professional services	22,000	20,992	1,008	30,450

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	\$ 24,500	\$ 48,672	\$ (24,172)	\$ 26,807
Other purchased services	6,800	8,772	(1,972)	3,658
General supplies and materials	11,350	19,513	(8,163)	13,776
Instructional supplies and materials	37,875	29,731	8,144	46,102
Other	10,100	14,898	(4,798)	4,501
Total exceptional instruction	\$ 5,372,192	\$ 5,034,261	\$ 337,931	\$ 4,963,203
Community education and services-				
Capital outlay	\$ 1,500	\$ 1,269	\$ 231	\$ -
Instructional support services-				
Salaries-				
Assistant principal	\$ 320,187	\$ 323,429	\$ (3,242)	\$ 301,308
Media	194,237	179,391	14,846	191,217
Technology	227,780	228,007	(227)	221,480
Curriculum development	106,961	105,643	1,318	90,423
Staff development	116,104	91,440	24,664	101,927
Secretarial and other	378,830	365,026	13,804	349,239
Employee benefits	351,395	361,039	(9,644)	371,406
Travel	66,250	64,066	2,184	58,761
Professional services	94,840	68,375	26,465	83,082
Other purchased services	60,750	28,246	32,504	18,985
General supplies and materials	44,410	29,252	15,158	30,301
Instructional supplies and materials	700	1,762	(1,062)	35,933
Other	91,607	88,024	3,583	76,713
Capital outlay	130,402	125,888	4,514	202,107
Total instructional support services	\$ 2,184,453	\$ 2,059,588	\$ 124,865	\$ 2,132,882
Pupil support services-				
Guidance and counseling-				
Salaries	\$ 214,608	\$ 213,915	\$ 693	\$ 208,352
Employee benefits	52,141	52,071	70	49,072
Supplies and materials	7,620	7,277	343	1,355

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services (continued)-				
Family advocates-				
Salaries	\$ 28,000	\$ 27,178	\$ 822	\$ 34,897
Employee benefits	3,990	4,419	(429)	5,527
Purchased services	2,000	574	1,426	1,720
Supplies and materials	100	-	100	4
Health services-				
Salaries	31,300	32,604	(1,304)	29,865
Employee benefits	10,119	10,376	(257)	9,854
Travel	755	819	(64)	600
Purchased services	67,000	58,093	8,907	65,051
General supplies and materials	2,150	2,671	(521)	1,910
Capital outlay	500	-	500	1,055
Violence prevention-				
Salaries	34,400	34,400	-	33,675
Employee benefits	5,494	5,503	(9)	5,398
Purchased services	45,325	42,218	3,107	39,108
Supplies and materials	200	199	1	93
Transportation-				
Salaries	120,333	111,110	9,223	112,192
Employee benefits	36,680	37,709	(1,029)	32,205
Supplies and materials	800	170	630	744
Contracted services and public carriers	1,196,787	1,130,095	66,692	1,021,229
Other	60,880	70,592	(9,712)	44,979
Nobles County integration collaborative	379,260	360,774	18,486	370,948
Other support services-				
Supplies and materials	3,800	3,621	179	4,268
Total pupil support services	\$ 2,304,242	\$ 2,206,388	\$ 97,854	\$ 2,074,101

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	\$ 754,153	\$ 755,435	\$ (1,282)	\$ 725,590
Employee benefits	196,629	194,580	2,049	184,254
Travel	485	25	460	135
Repairs and maintenance service	206,500	299,890	(93,390)	224,718
Fuel for buildings	218,000	144,738	73,262	129,872
Utilities, except for fuel for buildings	561,400	510,569	50,831	501,199
Custodial supplies and materials	114,200	134,651	(20,451)	109,162
Other	200,947	211,492	(10,545)	45,594
Capital outlay-				
Operating capital	44,138	48,271	(4,133)	78,886
Deferred maintenance	214,221	146,702	67,519	165,025
Projects using committed or unrestricted funds	84,652	223,366	(138,714)	1,338,054
Health and safety	160,560	83,303	77,257	71,981
Disabled accessibility	5,500	5,738	(238)	-
Total site, buildings and equipment	\$ 2,761,385	\$ 2,758,760	\$ 2,625	\$ 3,574,470
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	\$ 69,000	\$ 67,959	\$ 1,041	\$ 66,638
Debt redemption-				
Certificate of participation principal	245,000	245,000	-	245,000
Certificate of participation interest	138,488	138,488	-	142,163
Certificate of participation other expense	2,000	2,000	-	2,000
Special assessments	160	-	160	62,480
Total fiscal and other fixed cost programs	\$ 454,648	\$ 453,447	\$ 1,201	\$ 518,281
Total expenditures	\$ 29,665,611	\$ 28,551,830	\$ 1,113,781	\$ 28,125,544
Excess (deficit) of revenues over expenditures	\$ (17,830)	\$ 2,022,190	\$ 2,040,020	\$ 268,176

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
OTHER FINANCING SOURCES:				
Transfer from Capital Projects fund	\$ -	\$ 699,215	\$ 699,215	\$ -
Sale of capital assets	500	501	1	1,552
	<u>500</u>	<u>501</u>	<u>1</u>	<u>1,552</u>
Total other financing sources	\$ <u>500</u>	\$ <u>699,716</u>	\$ <u>699,216</u>	\$ <u>1,552</u>
Net change in fund balances	\$ (17,330)	\$ 2,721,906	\$ 2,739,236	\$ 269,728
FUND BALANCE, Beginning of year	<u>12,223,807</u>	<u>12,223,807</u>	<u>-</u>	<u>11,954,079</u>
FUND BALANCE, End of year	<u>\$ 12,206,477</u>	<u>\$ 14,945,713</u>	<u>\$ 2,739,236</u>	<u>\$ 12,223,807</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOOD SERVICE SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local sales and other revenues-				
Meals sold	\$ 412,100	\$ 442,480	\$ 30,380	\$ 395,447
Other local revenues	500	1,003	503	847
Total local sales and other revenues	\$ 412,600	\$ 443,483	\$ 30,883	\$ 396,294
State sources-				
State lunch and breakfast program aid	\$ 83,600	\$ 72,900	\$ (10,700)	\$ 78,913
Total state sources	\$ 83,600	\$ 72,900	\$ (10,700)	\$ 78,913
Federal sources-				
Regular lunch and breakfast	\$ 417,000	\$ 426,578	\$ 9,578	\$ 358,172
Free and reduced	675,000	671,022	(3,978)	622,014
Summer food program	90,000	89,178	(822)	85,010
Commodity rebates	4,200	6,698	2,498	3,825
Commodities used	61,500	73,153	11,653	60,340
Total federal sources	\$ 1,247,700	\$ 1,266,629	\$ 18,929	\$ 1,129,361
Total revenues	\$ 1,743,900	\$ 1,783,012	\$ 39,112	\$ 1,604,568
EXPENDITURES:				
Pupil support services-				
Salaries	\$ 505,950	\$ 496,402	\$ 9,548	\$ 474,349
Employee benefits	142,336	145,382	(3,046)	137,836
Repairs and maintenance	11,000	4,492	6,508	8,095
Utilities	9,500	10,250	(750)	9,225
Other purchased services	49,350	47,763	1,587	42,712
General supplies and materials	53,085	51,569	1,516	50,468
Food	956,164	895,382	60,782	847,343
Equipment purchased	10,310	12,202	(1,892)	165,017
Other	6,205	643	5,562	6,149
Total pupil support services	\$ 1,743,900	\$ 1,664,085	\$ 79,815	\$ 1,741,194
Total expenditures	\$ 1,743,900	\$ 1,664,085	\$ 79,815	\$ 1,741,194
Net change in fund balances	\$ -	\$ 118,927	\$ 118,927	\$ (136,626)
FUND BALANCE, Beginning of year	315,764	315,764	-	452,390
FUND BALANCE, End of year	\$ 315,764	\$ 434,691	\$ 118,927	\$ 315,764

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 168,544	\$ 163,971	\$ (4,573)	\$ 146,085
Property tax shift	-	7,170	7,170	(3,844)
Total local property tax levies	\$ 168,544	\$ 171,141	\$ 2,597	\$ 142,241
Other local and county revenues-				
Tuition and fees from patrons	\$ 47,500	\$ 51,019	\$ 3,519	\$ 52,670
Other local revenues	60,635	100,659	40,024	42,345
Total other local and county revenues	\$ 108,135	\$ 151,678	\$ 43,543	\$ 95,015
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	\$ 715,068	\$ 725,176	\$ 10,108	\$ 686,846
Other appropriations by the state for				
replacement of local taxes-				
Disparity and other	4,865	5,762	897	18,105
Total revenues from state sources	\$ 719,933	\$ 730,938	\$ 11,005	\$ 704,951
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 416,937	\$ 384,974	\$ (31,963)	\$ 537,795
Total revenues from federal sources	\$ 416,937	\$ 384,974	\$ (31,963)	\$ 537,795
Sales and other conversion of assets-				
Sales of materials and supplies	\$ -	\$ 130	\$ 130	\$ 170
Total revenues	\$ 1,413,549	\$ 1,438,861	\$ 25,312	\$ 1,480,172

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
Community education and services-				
Civic activities and general	\$ 135,474	\$ 145,147	\$ (9,673)	\$ 152,885
Early Childhood Family Education	185,659	184,201	1,458	168,352
21st Century Learning Center	295,030	262,241	32,789	298,141
Even Start	-	-	-	1,265
School readiness	46,673	45,089	1,584	45,803
Preschool screening	17,455	13,968	3,487	17,220
Parent involvement	-	-	-	129
Youth programs	79,101	61,018	18,083	98,054
Adult education programs	631,421	706,063	(74,642)	681,859
Non-public school assistance-				
Textbooks and standardized tests	13,694	12,099	1,595	13,700
Total community education and services	\$ 1,404,507	\$ 1,429,826	\$ (25,319)	\$ 1,477,408
Pupil support services-				
Non-public school health services-				
Salaries	\$ 7,816	\$ 6,675	\$ 1,141	\$ 7,882
Employee benefits	1,126	1,010	116	1,154
Other	100	-	100	-
Total pupil support services	\$ 9,042	\$ 7,685	\$ 1,357	\$ 9,036
Total expenditures	\$ 1,413,549	\$ 1,437,511	\$ (23,962)	\$ 1,486,444
Net change in fund balances	\$ -	\$ 1,350	\$ 1,350	\$ (6,272)
FUND BALANCE, Beginning of year	137,179	137,179	-	143,451
FUND BALANCE, End of year	\$ 137,179	\$ 138,529	\$ 1,350	\$ 137,179

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013		2012	
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Other local and county revenues-				
Interest income	\$ -	\$ 723	\$ 723	\$ 967
Total revenues	\$ -	\$ 723	\$ 723	\$ 967
EXPENDITURES:				
Site, buildings and equipment-				
Purchased services	\$ -	\$ -	\$ -	\$ -
Buildings	-	-	-	380,053
Equipment	-	-	-	5,122
Total site, buildings and equipment	\$ -	\$ -	\$ -	\$ 385,175
Total expenditures	\$ -	\$ -	\$ -	\$ 385,175
Excess (deficit) of revenues over expenditures	\$ -	\$ 723	\$ 723	\$ (384,208)
OTHER FINANCING SOURCES (USES):				
Transfer (to) general fund	-	(699,215)	(699,215)	-
Net change in fund balances	\$ -	\$ (698,492)	\$ (698,492)	\$ (384,208)
FUND BALANCE, Beginning of year	1,979,261	1,979,261	-	2,363,469
FUND BALANCE, End of year	\$ 1,979,261	\$ 1,280,769	\$ (698,492)	\$ 1,979,261

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies	\$ 2,312,023	\$ 2,247,776	\$ (64,247)	\$ 1,589,238
Other local and county revenues-				
Interest income	\$ 1,500	\$ 1,553	\$ 53	\$ 659
Revenues from state sources-				
Appropriations by the state for replacement of local taxes-				
Homestead and agricultural credit aid \$	-	\$ 23,240	\$ 23,240	\$ 138,410
Disparity and other	-	54,891	54,891	56,036
Total revenues from state sources	\$ -	\$ 78,131	\$ 78,131	\$ 194,446
Total revenues	\$ 2,313,523	\$ 2,327,460	\$ 13,937	\$ 1,784,343
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	\$ 1,300,000	\$ 1,300,000	\$ -	\$ 1,270,000
Interest expense	898,195	898,195	-	935,270
Other expense	2,900	2,875	25	2,875
Total debt redemption	\$ 2,201,095	\$ 2,201,070	\$ 25	\$ 2,208,145
Total expenditures	\$ 2,201,095	\$ 2,201,070	\$ 25	\$ 2,208,145
Net change in fund balances	\$ 112,428	\$ 126,390	\$ 13,962	\$ (423,802)
FUND BALANCE, Beginning of year	486,450	486,450	-	910,252
FUND BALANCE, End of year	\$ 598,878	\$ 612,840	\$ 13,962	\$ 486,450

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2013

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2012)

	<u>Trust Fund</u>	<u>Agency Funds</u>	<u>Totals</u>	
	<u>Private Purpose</u>	<u>Interdistrict</u>	<u>2013</u>	<u>2012</u>
	<u>Trust Fund</u>	<u>Integration</u>		
ASSETS:				
Cash and investments	\$ 433,629	\$ 25,210	\$ 458,839	\$ 341,055
Receivables-				
Accounts receivable	665	528	1,193	140
Total assets	<u>\$ 434,294</u>	<u>\$ 25,738</u>	<u>\$ 460,032</u>	<u>\$ 341,195</u>
LIABILITIES:				
Salaries payable	\$ -	\$ 14,866	\$ 14,866	\$ 13,952
Accounts payable	5,837	1,537	7,374	6,869
Due to other school districts and governmental units	-	9,121	9,121	-
Unearned revenue	-	214	214	22,829
Total liabilities	<u>\$ 5,837</u>	<u>\$ 25,738</u>	<u>\$ 31,575</u>	<u>\$ 43,650</u>
NET POSITION:				
Held in trust	<u>428,457</u>	<u>-</u>	<u>428,457</u>	<u>297,545</u>
Total liabilities and net position	<u>\$ 434,294</u>	<u>\$ 25,738</u>	<u>\$ 460,032</u>	<u>\$ 341,195</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Final Budget	Actual	Variance with Final Budget	Actual
ADDITIONS:				
Other local and county revenues-				
Interest income	\$ 250	\$ 112	\$ (138)	\$ 139
Other local revenues	<u>70,400</u>	<u>174,794</u>	<u>104,394</u>	<u>209,163</u>
Total other local and county revenues	<u>\$ 70,650</u>	<u>\$ 174,906</u>	<u>\$ 104,256</u>	<u>\$ 209,302</u>
Total revenues	<u>\$ 70,650</u>	<u>\$ 174,906</u>	<u>\$ 104,256</u>	<u>\$ 209,302</u>
DEDUCTIONS:				
Other pupil support	<u>\$ 100,000</u>	<u>\$ 43,994</u>	<u>\$ 56,006</u>	<u>\$ 201,515</u>
Total expenditures	<u>\$ 100,000</u>	<u>\$ 43,994</u>	<u>\$ 56,006</u>	<u>\$ 201,515</u>
Change in net position	<u>\$ (29,350)</u>	<u>\$ 130,912</u>	<u>\$ 160,262</u>	<u>\$ 7,787</u>
NET POSITION - Beginning of year	<u>297,545</u>	<u>297,545</u>	<u>-</u>	<u>289,758</u>
NET POSITION - End of year	<u>\$ 268,195</u>	<u>\$ 428,457</u>	<u>\$ 160,262</u>	<u>\$ 297,545</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Interdistrict Integration:				
Assets-				
Cash	\$ 43,051	\$ 591,724	\$ 609,565	\$ 25,210
Accounts receivable	140	528	140	528
Total assets	<u>\$ 43,191</u>	<u>\$ 592,252</u>	<u>\$ 609,705</u>	<u>\$ 25,738</u>
Liabilities-				
Salaries payable	\$ 13,952	\$ 18,928	\$ 18,014	\$ 14,866
Accounts payable	6,410	219,608	224,481	1,537
Due to other school districts and governmental units	-	9,121	-	9,121
Unearned revenue	22,829	214	22,829	214
Total liabilities	<u>\$ 43,191</u>	<u>\$ 247,871</u>	<u>\$ 265,324</u>	<u>\$ 25,738</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULES OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets:					
Land	\$ 354,987	\$ 141,221	\$ -	\$ -	\$ 496,208
Land improvements	2,074,800	97,962	-	-	2,172,762
Buildings	33,974,133	66,555	-	-	34,040,688
Equipment	7,328,995	929,726	-	(241,013)	8,017,708
Vehicles	238,435	29,306	-	(23,536)	244,205
Total capital assets	<u>\$ 43,971,350</u>	<u>\$ 1,264,770</u>	<u>\$ -</u>	<u>\$ (264,549)</u>	<u>\$ 44,971,571</u>
Capital assets by source:					
General and special revenue funds	\$ 6,935,738	\$ 1,257,960	\$ -	\$ (264,549)	\$ 7,929,149
General obligation bonds	36,330,306	-	-	-	36,330,306
Federal grants	705,306	6,810	-	-	712,116
Total capital assets by source	<u>\$ 43,971,350</u>	<u>\$ 1,264,770</u>	<u>\$ -</u>	<u>\$ (264,549)</u>	<u>\$ 44,971,571</u>
Capital assets by function and activity:					
Administration	\$ 31,831	\$ 5,140	\$ (7,472)	\$ (3,746)	\$ 25,753
Instruction	5,169,207	591,664	(111,978)	(126,493)	5,522,400
Instructional support services	873,366	135,253	117,523	(94,033)	1,032,109
Pupil support services	291,380	30,118	(3,899)	(23,536)	294,063
Food service	536,242	3,984	-	(9,544)	530,682
Community education and services	138,145	19,776	6,929	(802)	164,048
Site, buildings and equipment	36,931,179	478,835	(1,103)	(6,395)	37,402,516
Total capital assets by function and activity	<u>\$ 43,971,350</u>	<u>\$ 1,264,770</u>	<u>\$ -</u>	<u>\$ (264,549)</u>	<u>\$ 44,971,571</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2013, 2012, 2011, 2010 AND 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/2009	\$ -	\$ 644,836	\$(644,836)	0.0%	\$ 11,124,473	5.8%
06/30/2010	\$ -	\$ 644,836	\$(644,836)	0.0%	\$ 12,074,815	5.3%
06/30/2011	\$ -	\$ 529,053	\$(529,053)	0.0%	\$ 12,955,001	4.1%
06/30/2012	\$ -	\$ 529,053	\$(529,053)	0.0%	\$ 13,762,583	3.8%
06/30/2013	\$ -	\$ 750,522	\$(750,522)	0.0%	\$ 14,144,577	5.3%

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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 Members of the School Board
Independent School District No. 518
Worthington, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 518 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. The finding is indicated as item 2013-1.

Compliance and Other Matters

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

Purpose of this Report

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

Independent School District No. 518's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Dealan Kilkenny Hoetler & Co., P.A.

Worthington, Minnesota
September 30, 2013

DREALAN KVILHAUG HOEFKER & Co., P.A.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 518's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, The District 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 2013-1, 2013-2 and 2013-3. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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

Dwight Kishang Hoetker & Co., P.A.

Worthington, Minnesota
September 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Pass-through program from Minnesota Department of Education-		
Nutrition Cluster:		
School Breakfast	10.553*	\$ 275,212
School Lunch	10.555*	822,389
School Food Service program	10.559*	<u>89,178</u>
Total Nutrition Cluster		\$ <u>1,186,779</u>
Commodities Distribution (Note B)	10.555*	\$ <u>73,153</u>
Commodity Cash Rebate Program	10.S6209	\$ <u>6,698</u>
Total U.S. Department of Agriculture		\$ <u>1,266,630</u>
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	\$ <u>32,974</u>
English Language/Civics Appropriations	84.002A	\$ <u>40,000</u>
21 st Century Community Learning Center	84.287	\$ <u>261,665</u>
English Language Acquisition	84.365	\$ <u>59,498</u>
Teacher and Principal Training and Recruiting	84.367	\$ <u>60,730</u>
Migrant Education	84.011	\$ <u>2,300</u>
Special Education Cluster:		
Special Education	84.027*	\$ 420,533
Special Education Coordinated Early Intervening Services	84.027*	77,231
Special Education Preschool Grants	84.173*	<u>11,805</u>
Total Special Education Cluster		\$ <u>509,569</u>
Title I:		
Title I Grants to LEA's	84.010*	\$ <u>441,512</u>
Total Title I		\$ <u>441,512</u>
Total U.S. Department of Education		\$ <u>1,408,248</u>

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title- (Continued)</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	\$ 25,830
Refugee Social Services Youth Development	93.566	24,505
Medical Assistance Programs (Medicaid: Title XIX)	93.778	<u>132,366</u>
Total U.S. Department of Health & Human Services		\$ <u>182,701</u>
Total expenditures of Federal Awards		\$ <u>2,857,579</u>

*Denotes major program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A-SIGNIFICANT ACCOUNTING POLICIES:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Independent School District No. 518 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statement.

NOTE B-COMMODITY DISTRIBUTION:

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Independent School District No. 518.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. There were no instances of noncompliance material to the financial statements of Independent School District No. 518, which would be required to be reported in accordance with *Government Auditing Standards*, that were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal awards programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for Independent School District No. 518 expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Independent School District No. 518 are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Child Nutrition Cluster-

School Breakfast	CFDA No. 10.553
National School Lunch	CFDA No. 10.555
Commodity Distribution Program	CFDA No. 10.555
Summer Food Service Program for Children	CFDA No. 10.559

Title I CFDA No. 84.010

Special Education Cluster-

Special Education	CFDA No. 84.027
Special Education-Preschool Grants	CFDA No. 84.173

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Independent School District No. 518 was determined to be a high-risk auditee.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2013-1.	Condition:	The District has a lack of segregation of duties in the financial department.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
	Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
	Cause:	The District has limited personnel available to perform accounting duties.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2014
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT:

SIGNIFICANT DEFICIENCIES

2013-1.	Title I, CFDA No. 84.010 Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 Special Education Cluster, CFDA No.'s 84.027 and 84.173	
	Condition:	The District has limited personnel available to perform accounting duties.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

- 2013-1. Title I, CFDA No. 84.010
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173 (continued)

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2014
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

- 2013-2. Title I, CFDA No. 84.010
Special Education Cluster, CFDA No. 84.027 and 84.173
Nutrition Cluster, CFDA No. 10.553, 10.555 and 10.559

Condition: We tested 60 expenditures in the total group. We noted three instances where the documentation was missing which was needed to determine the eligibility of the program expenditure.

Criteria: Review procedures should be in place that provide reasonable assurance that the necessary documentation is included with the expenditure request.

Effect: Expenditures may have been recorded and reported that were not eligible for the program.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2013-2. Title I, CFDA No. 84.010 (continued)

Cause: The District has limited personnel available to perform accounting and review procedures.

Recommendation: The District obtain the necessary supporting documentation to ensure expenditures recorded and reported are allowable for the programs.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District's department supervisors will be monitoring reimbursement submissions for appropriate documentation.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2014
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

2013-3. Special Education Cluster, CFDA No. 84.027 and 84.173

Condition: We tested 25 Special Education Cluster expenditures. We noted one instance where the supporting documentation for additional food expenditures was missing; one instance of un-timely mileage reimbursement; and one instance where the expenditure was recorded in the wrong program.

Criteria: Review procedures should be in place that provide reasonable assurance that the expenditure is appropriate, complete, and reported in the proper program.

Effect: Expenditures may have been recorded and reported that were not eligible for the program.

Cause: The District has limited personnel available to perform accounting and review procedures.

Recommendation: The District obtain the necessary supporting documentation to ensure expenditures recorded and reported are allowable and allocated to the correct programs.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2013-3. Special Education Cluster, CFDA No. 84.027 and 84.173 (continued)

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District's department supervisors will be monitoring reimbursement submissions for appropriate documentation.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2014
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

A. FINDINGS – FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2012-1. Condition:	The District has a lack of segregation of duties in the financial department.
Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
Cause:	The District has limited personnel available to perform accounting duties.
Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2013
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT:

2012-1. Title I, CFDA No. 84.010, 84.398

Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173

Condition:	The District has limited personnel available to perform accounting duties.
Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT (CONTINUED):

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2013
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

2012-2. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559

Condition: We tested 60 Nutrition Cluster expenditures. We noted two instances where the documentation did not support the pay rate.

Effect: Payroll supporting information was out dated.

Recommendation: The District should review and update all supporting documentation to ensure that the supporting documentation matches the automated system.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT (CONTINUED):

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District's automated timekeeping system will be monitored for appropriate use of pay codes and their associated distribution and rate.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2013
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

DREALAN KVILHAUG HOEFKER & Co., P.A.



Member
Division for CPA Firms AICPA

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MARILYN B. McDOWELL, CPA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Independent School District No. 518, as of and for the year ended June 30, 2013, and have issued our report thereon dated September 30, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for miscellaneous provisions because the district did not have any miscellaneous provisions activity during the current reporting period.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 518 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 518's noncompliance with the above referenced provisions.

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

Drealan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
September 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

CURRENT AUDIT

A. FINDING:

Independent School District No. 518 did not get authorization signature on all bills, as required in Minnesota Statute Section 471.38, subdivision 1.

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The District will obtain authorization for bills submitted for payment as required by Minnesota Statute Section 471.38, subdivision 1.

3. Official Responsible for Ensuring CAP

David Skog, District manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is December 31, 2014.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this corrective action plan.

INDEPENDENT SCHOOL DISTRICT NO. 518

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 518

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

June 30, 2013

	AUDIT	UFARS	Difference		AUDIT	UFARS	Difference
<u>01 GENERAL FUND</u>				<u>06 BUILDING</u>			
Total Revenue	\$ 30,574,020	\$ 30,574,020	\$ -	Total Revenue	\$ 723	\$ 723	\$ -
Total Expenditures	28,551,830	28,551,830	-	Total Expenditures	-	-	-
Nonspendable:				Nonspendable:			
460 Nonspendable Fund Balance	266,037	266,037	-	460 Nonspendable Fund	-	-	-
Restricted/Reserve:				Restricted/Reserve:			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	263,984	263,984	-	409 Alternative Facility	1,280,769	1,280,769	-
406 Health & Safety	39,375	39,375	-	413 Projects Funded by Cop	-	-	-
407 Capital Projects Levy	-	-	-	Restricted:			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	-	-	-
411 Severance Pay	-	-	-	Unassigned:			
413 Project Funded by Cop	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	<u>07 DEBT SERVICE</u>			
417 Taconite Building Maint	-	-	-	Total Revenue	2,327,460	2,327,460	-
423 Certain Teacher Programs	-	-	-	Total Expenditures	2,201,070	2,201,070	-
424 Operating Capital	301,099	301,099	-	Nonspendable:			
426 \$25 Taconite	-	-	-	460 Nonspendable Fund	-	-	-
427 Disabled Accessibility	65,893	65,893	-	Restricted/Reserve:			
428 Learning & Development	-	-	-	425 Bond Refundings	-	-	-
434 Area Learning Center	80,614	80,614	-	451 QZAB Payments	-	-	-
435 Contracted Alt. Programs	-	-	-	Restricted:			
436 State Approved Alt. Program	-	-	-	464 Restricted Fund Balance	612,840	612,840	-
438 Gifted & Talented	21,223	21,223	-	Unassigned:			
441 Basic Skills Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Tech Programs	-	-	-				
446 First Grade Preparedness	-	-	-	<u>08 TRUST</u>			
449 Safe Schools Levy	17,716	17,716	-	Total Revenue	174,906	174,906	-
450 Prekindergarten	-	-	-	Total Expenditures	43,994	43,994	-
451 QZAB Payments	-	-	-	422 Net Assets	428,457	428,457	-
452 OPEB Liab not in Trust	-	-	-				
453 Unfndd Sev & Retiremt Levy	-	-	-	<u>20 INTERNAL SERVICE</u>			
Restricted:				Total Revenue	-	-	-
464 Restricted Fund Balance	699,317	699,317	-	Total Expenditures	-	-	-
Committed:				422 Net Assets	-	-	-
418 Committed For Separation	354,390	354,390	-				
461 Committed Fund Balance	-	-	-	<u>25 OPEB Revocable Turst Fund</u>			
Assigned:				Total Revenue	-	-	-
462 Assigned Fund Balance	2,425,000	2,425,000	-	Total Expenditures	-	-	-
Unassigned:				422 Net Assets	-	-	-
422 Unassigned Fund Balance	10,411,065	10,411,066	(1)				
<u>02 FOOD SERVICE</u>				<u>45 OPEB Irrevocable Turst Fund</u>			
Total Revenue	1,783,012	1,783,012	-	Total Revenue	-	-	-
Total Expenditures	1,664,085	1,664,085	-	Total Expenditures	-	-	-
Nonspendable:				422 Net Assets	-	-	-
460 Nonspendable Fund Balance	40,276	40,276	-				
Restricted:				<u>47 OPEB Debt Service Fund</u>			
452 OPEB Liab not in Trust	-	-	-	Total Revenue	-	-	-
464 Restricted Fund Balance	394,415	394,415	-	Total Expenditures	-	-	-
Unassigned:	-	-	-	Nonspendable:			
Unreserved:				460 Nonspendable Fund	-	-	-
463 Unassigned Fund Balance	-	-	-	Restricted:			
<u>04 COMMUNITY SERVICE</u>				464 Restricted Fund Balance	-	-	-
Total Revenue	1,438,861	1,438,861	-	Unassigned:			
Total Expenditures	1,437,511	1,437,512	(1)	463 Unassigned Fund Balance	-	-	-
Nonspendable:							
460 Nonspendable Fund Balance	5,685	5,685	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	21,535	21,535	-				
432 E.C.F.E.	25,821	25,821	-				
444 School Readiness	9,783	9,783	-				
447 Adult Basic Education	72,871	72,871	-				
452 OPEB Liab not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	2,834	2,834	-				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				