

INDEPENDENT SCHOOL DISTRICT NO. 518

FINANCIAL STATEMENTS
AS OF JUNE 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 518

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INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2014

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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MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANTS

WAYNE W. DREALAN, CPA
ELLEN K. HOEFKER, MBA, CPA
GREG H. KVILHAUG, CPA, CFP

VICKIE L. KUIPERS, EA
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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund, food service fund, and the community service fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the District's 2013 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated September 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2014, the District adopted new accounting guidance, GASB Statement No. 67, Financial Reporting for Pension Plans. 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 the schedule of funding progress for postemployment benefit plan on pages 4-18 and 78 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 uniform financial accounting and reporting standards compliance table 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 uniform financial accounting and reporting standards compliance table, 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 and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, 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.

Dresler Krilhang Hoefken & Co., P.A.

Worthington, Minnesota
October 13, 2014

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-2014 fiscal year include the following:

- Net position increased 22.3% over the prior year.
- Overall actual revenues in the Statement of Activities were more than \$38,367,000 and slightly over \$4,186,000 more than expenses.
- The District's General Fund unassigned fund balance (under the governmental fund presentation) decreased \$1,167,692 from the prior year compared to a projected decrease of \$1,837,806. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections.
- Ipad learning devices were purchased under a three year capital lease for students in grades three through eight at a cost of \$508,370.
- In preparation for the 2014-15 high school student implementation of the learning device initiative, tablet devices were purchased at a cost of \$767,724
- At June 30, the District is nearing completion of the District 518 Transportation building. The building will be leased to the District's transportation contractor.
- The district substantially refunded the 2005A general obligation building bonds which resulted in a reduction of interest cost totaling \$1.3 million over the remaining 10 year life of the bonds.
- The District presented two ballot questions to voters in the November 2013 asking the renewal of the existing operating referendum and approval for a \$39 million building bond for construction of an additional school building. Both questions were defeated.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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

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.

- 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America

- 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 government-wide financial statements, we provide additional information on separate statements that explain the relationship (or differences) between them.
- 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$22,935,804 on June 30, 2014. This was an increase of 22.21% from the prior year. (See Table A-1.)

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

	2014	2013	Percentage Change
Current and other assets	\$ 25,194,426	\$ 24,212,057	4.06%
Capital assets	29,853,607	27,037,346	10.42%
Total assets	<u>\$ 55,048,033</u>	<u>\$ 51,249,403</u>	7.41%
Long-term liabilities	\$ 23,945,113	\$ 23,650,926	1.24%
Other liabilities	3,723,187	5,277,549	(29.45%)
Total liabilities	<u>\$ 27,668,300</u>	<u>\$ 28,928,475</u>	(4.36%)
Deferred Inflows of Resources	<u>\$ 4,443,929</u>	<u>\$ 3,563,340</u>	24.71%
Net Position			
Net investment in capital assets	\$ 8,159,851	\$ 3,433,115	137.68%
Restricted	2,660,370	2,675,281	(0.56%)
Unrestricted	12,115,583	12,649,192	(4.22%)
Total net position	<u><u>\$ 22,935,804</u></u>	<u><u>\$ 18,757,588</u></u>	22.27%

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.
- Construction of the District transportation building without corresponding debt.

Changes in net position. The District's total revenues were \$38,367,305 for the year ended June 30, 2014. Property taxes and state formula aid accounted for 60.14% of total revenue for the year. (See Figure A-3.) Another 0.46% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$34,181,027. The District's expenses are predominantly related to educating and caring for students (79.73%). (See Figure A-4.) The purely administrative activities of the District accounted for just 2.84% of total costs.

Total revenues exceeded expenditures, increasing net position \$4,178,216 from last year.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in net position (continued)

Table A-2 is similar to the fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. It also includes depreciation expense and excludes capital asset purchase costs, debt issuance proceeds and the repayment of debt principal.

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

	2014	2013	Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 1,130,947	\$ 1,052,448	7.46%
Operating grants and contributions	13,321,487	11,662,940	14.22%
Capital grants and contributions	664,609	464,925	42.95%
General revenues			
Property taxes	3,678,442	5,078,378	(27.57%)
State aid - formula grants	19,505,325	17,832,201	9.38%
Other	66,495	37,060	79.43%
Total revenues	<u>\$ 38,367,305</u>	<u>\$ 36,127,952</u>	<u>6.20%</u>
Expenses			
District and school administration	\$ 969,713	\$ 837,094	15.84%
District support services	539,304	400,645	34.61%
Regular instruction	15,050,107	14,253,812	5.59%
Exceptional instruction	5,149,944	5,064,395	1.69%
Vocational instruction	504,685	492,615	2.45%
Instructional support services	2,015,307	2,051,362	(1.76%)
Pupil support services	4,535,428	3,897,712	16.36%
Site, buildings and equipment	3,114,309	3,188,498	(2.33%)
Fiscal and other fixed cost programs	713,619	1,053,156	(32.24%)
Community education and services	1,588,611	1,414,300	12.32%
Total expenses	<u>\$ 34,181,027</u>	<u>\$ 32,653,589</u>	<u>4.68%</u>
Change in net position before special item	\$ 4,186,278	\$ 3,474,363	
Special items	(8,062)	(10,068)	
Increase in net position	<u>\$ 4,178,216</u>	<u>\$ 3,464,295</u>	
Net position - June 30	<u>\$ 22,935,804</u>	<u>\$ 18,757,588</u>	

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INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2014

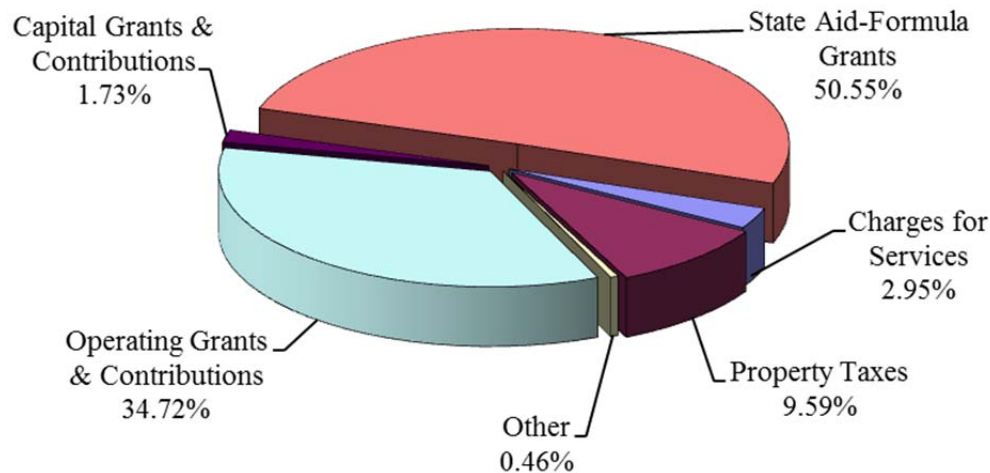
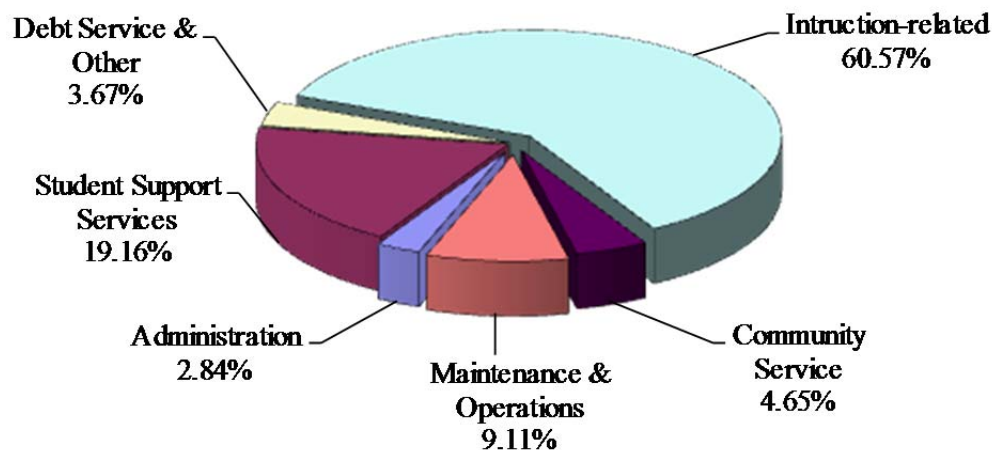


Figure A-4 Independent School District 518's Expenses for Fiscal Year 2014



- The cost of all governmental activities this year was \$34,181,027.
- Some of the cost was paid by the users of the District's programs (\$1,130,947).
- The federal and state governments subsidized certain programs with grants and contributions (\$13,321,487 operating, \$664,609 capital).
- Most of the District's costs (\$19,063,984), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$3,678,442 in property taxes, \$19,505,325 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)
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014

	2014		2013
	Total cost of services	Net cost of services	Net cost of services
District and school administration	\$ 969,713	\$ 969,713	\$ 837,094
District support services	539,304	534,354	393,730
Regular instruction	15,050,107	8,745,017	8,811,484
Exceptional instruction	5,149,944	1,409,995	1,421,171
Vocational instruction	504,685	481,961	492,145
Instructional support services	2,015,307	1,653,752	1,902,447
Pupil support services	4,535,428	2,053,187	1,746,795
Site, buildings and equipment	3,114,309	2,380,555	2,661,869
Fiscal and other fixed cost programs	713,619	713,619	1,053,156
Community education and services	1,588,611	121,831	153,385
Total	<u>\$ 34,181,027</u>	<u>\$ 19,063,984</u>	<u>\$ 19,473,276</u>

The total cost of district services was \$34,181,027 as compared to the prior year total cost of district services of \$32,643,504, an increase of \$1,537.

When program specific revenues are considered, the net service cost was \$19,063,984, which represents a decrease of \$409,292 from the prior year.

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 \$17,320,673, a decrease of \$91,869 from the June 30, 2013 combined fund balance of \$17,412,542, or a 0.53% decrease.

Revenues for the District's governmental funds were \$38,349,363, while total expenditures were \$39,075,773, including the capital project expenditures of \$3,173,216.

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.

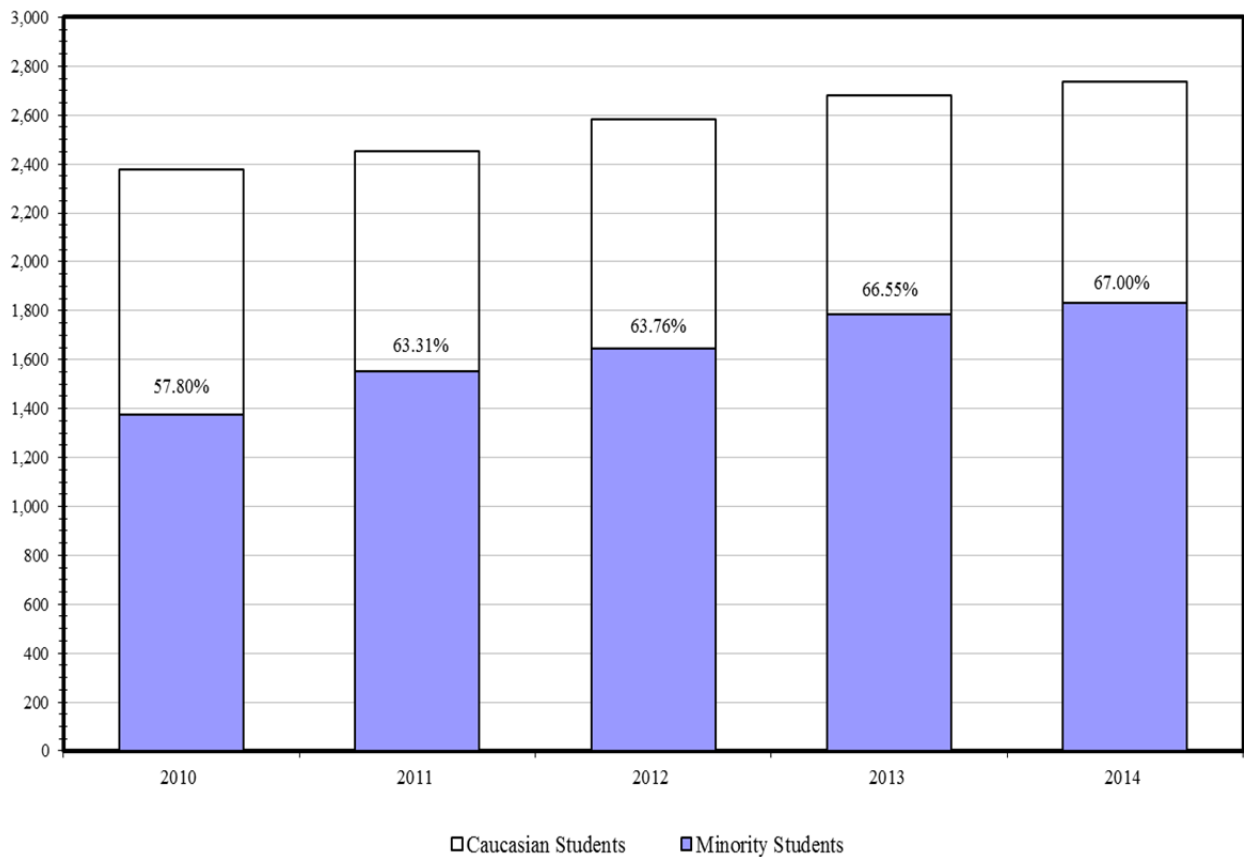
INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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.

Students (Average Daily Membership)



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. New residents along with an increase in the number of students open enrolling in our District are factors in the increase. Additionally a tuition agreement with Round Lake/Brewster District 2907 to serve their ninth through twelfth grade resident students contributed to the enrollment increase.

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)
FOR THE YEAR ENDED JUNE 30, 2014

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, 2013	Year ended June 30, 2014	Amount of increase (decrease)	Percent increase (decrease)
Local Sources				
Property taxes	\$ 2,620,762	\$ 1,520,611	\$ (1,100,151)	(41.98%)
Interest earnings	13,533	28,567	15,034	111.09%
Other	734,794	767,470	32,676	4.45%
State sources	26,133,622	29,161,133	3,027,511	11.58%
Federal sources	1,071,309	1,282,091	210,782	19.68%
Total revenues	\$ 30,574,020	\$ 32,759,872	\$ 2,185,852	7.15%
Other financing sources				
Lease transaction	-	508,370	508,370	N/A
Land and equipment sales	501	6,308	5,807	1,159.08%
Total	\$ 30,574,521	\$ 33,274,550	\$ 2,700,029	8.83%

Total General Fund revenue increased by \$2,700,029 or 8.83% 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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, 2013	Year ended June 30, 2014	Amount of increase (decrease)	Percent increase (decrease)
Salaries	\$ 17,163,744	\$ 17,844,003	\$ 680,259	3.96%
Benefits	5,056,026	4,945,114	(110,912)	(2.19%)
Purchased Services	3,702,587	4,397,463	694,876	18.77%
Supplies, Materials, and Equipment	2,138,738	3,439,112	1,300,374	60.80%
Other	490,735	2,712,182	2,221,447	452.68%
Total	<u>\$ 28,551,830</u>	<u>\$ 33,337,874</u>	<u>\$ 4,786,044</u>	16.76%

Total General Fund expenditures increased \$4,786,044 or 16.76% from the previous year.

The majority of this increase is construction of the transportation building (in progress - other) at a cost of \$2,163,291 and the athletic complex restroom at a cost of \$147,982. When combined with the learning device initiative equipment purchases of \$1,276,094 for a total of \$3,587,367, the remaining increase of \$1,198,677 is 4.20% from the previous year.

In fiscal 2014, salaries increased 3.96% with the addition of staff to meet the needs of increased enrollment. Employee benefits decreased by 2.19% with only one severance eligible retirement this year compared to 14 in the prior year. 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 and a new transportation contractor.

In 2013-2014, General Fund expenditures exceeded revenues and other financing sources by \$63,324. Therefore, total fund balance decreased to \$14,882,389 at June 30, 2014. After deducting statutory restrictions, the unassigned fund balance decreased from \$10,411,065 at June 30, 2013, to \$9,243,373 at June 30, 2014.

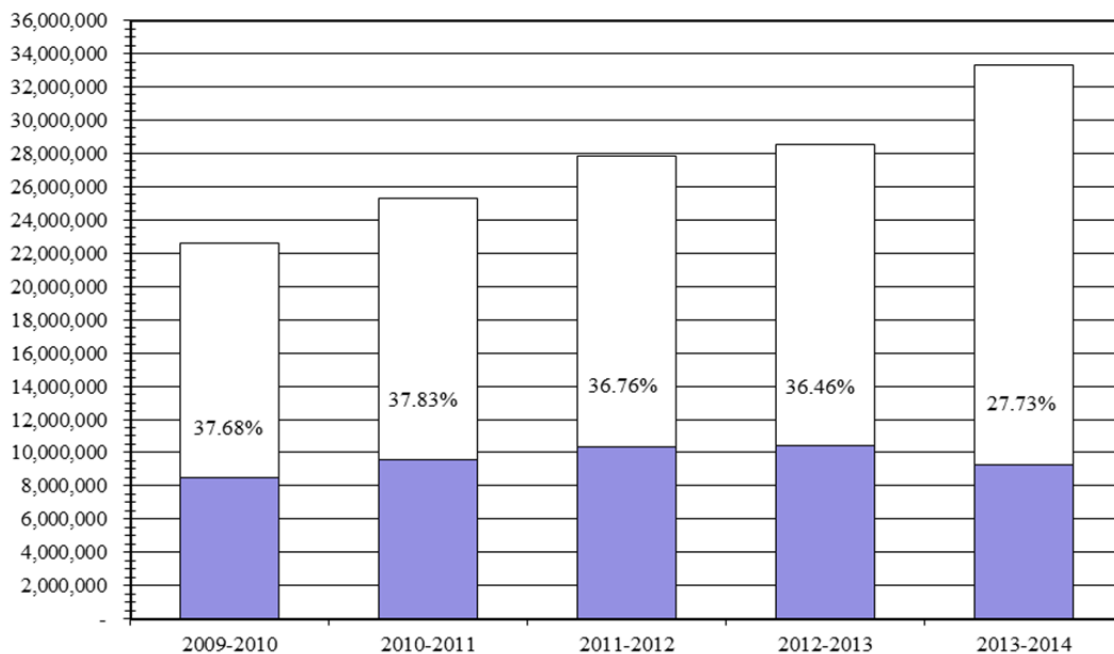
INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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 \$9,243,373 at June 30, 2014, represents 27.73% of annual expenditures or fourteen 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>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Unassigned fund balance	\$ 8,514,616	\$ 9,554,790	\$ 10,339,754	\$ 10,411,065	\$ 9,243,373
% Increase (decrease)	49.94%	12.22%	8.22%	0.69%	(11.22%)
Expenditures	\$ 22,598,242	\$ 25,257,304	\$ 28,125,544	\$ 28,551,830	\$ 33,337,874
% Increase (decrease)	0.94%	11.77%	11.36%	1.52%	16.76%

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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, debt refunding, and budgeting for clearing, resale, and gifts.
- Increases in appropriations for significant unbudgeted costs.

	Original <u>Budget</u>	Final <u>Budget</u>	Increase <u>(Decrease)</u>	Percent <u>Change</u>
Revenue	\$ 31,104,015	\$ 32,562,046	\$ 1,458,031	4.69%
Expenditure	\$ 33,128,622	\$ 34,908,722	\$ 1,780,100	5.37%
Other financing Sources (Uses)	\$ 500	\$ 508,870	\$ 508,370	

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 \$1,837,806, the actual results for the year show that expenditures and other financing uses exceeded revenues and other financing sources by \$63,324.

- Actual revenues were \$197,826 more than expected, a variance of 0.61%, due to higher than estimated basic formula pupil units.
- The actual expenditures were \$1,570,848 under budget or a 4.50% variance.

Other Governmental Funds

The Debt Service Fund expenditures and other financing uses exceeded revenues and other financing sources by \$101,325 in 2013-2014 compared to a budgeted decrease of \$106,651. The fund balance decreased to \$511,515 at June 30, 2014, and is available for meeting future debt service obligations.

The Food Service Fund revenues exceeded expenditures by \$20,621. The Food Service fund balance increased to \$455,312 or 25.10% 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 \$51,684 leaving a year-end fund balance of \$190,213 or 11.89% of annual expenditures. Increased Adult Basic Education funding and the new Pathways II early learning scholarship grants helped increase programming and fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of June 2014, the District had invested \$49,203,167 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 \$1,834,322.

Additional technology equipment, athletic facility renovation, building security entrance doors, custodial equipment, video and message boards, individual learning devices were among the capital asset additions for the year. Construction in progress is the nearly completed transportation building along with remodeling of the high school restrooms and counselor's office. Disposals included equipment no longer usable.

Table A-4
Independent School District No. 518

	Capital Assets		
	2014	2013	Increase (Decrease)
Land	\$ 496,208	\$ 496,208	\$ -
Land Improvements	2,179,842	2,172,762	7,080
Buildings	34,231,774	34,040,688	191,086
Equipment	9,848,931	8,017,708	1,831,223
Vehicles	276,115	244,205	31,910
Construction in progress	2,170,297	-	2,170,297
Less accumulated depreciation	(19,349,560)	(17,934,225)	(1,415,335)
Total	<u>\$ 29,853,607</u>	<u>\$ 27,037,346</u>	<u>\$ 2,816,261</u>
Depreciation Expense	<u>\$ 1,834,322</u>	<u>\$ 1,664,299</u>	<u>\$ 170,023</u>

Construction - Next Five Years

The District is investigating the possibility of dehumidification projects for the Middle School gymnasium and the High School Ag/wood shop and kitchen areas during the summer of 2015.

The need for additional space is increasing but with the November, 2013, building bond referendum failure, no specific plans have been presented to address this need.

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)
FOR THE YEAR ENDED JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-term Liabilities

At year-end, the District had \$22,975,000 in general obligation bonds and certificates of participation payable outstanding.

- The District retired \$1,605,000 of outstanding bonds and other long-term debt during 2013-2014.
- The District issued a \$10,000,000 2013A refunding issue for a substantial portion of the remaining 2005A bond issue during 2013-2014 thereby reducing future interest payments by over 1.3 million dollars.

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 \$22,975,000 is significantly below this limit which is currently \$295,433,055.

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 2014-2015 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 budget problems any increased programming will need to be closely scrutinized for sustainability.

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 of the Round Lake and Brewster school districts and closure of their 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)
FOR THE YEAR ENDED JUNE 30, 2014

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. The board of education has authorized a November 4, 2014, ballot question for a new 10 year operating referendum of \$500 per pupil unit.

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2013 and 2014, 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 a grant from the Minnesota Department of Human Services Refugee Student Service grant in the amount of \$14,000 for fiscal year 2015.

The District's Community Service fund, early childhood program was awarded a Pathways II continuation grant in the amount of \$92,000 for fiscal year 2015.

Following the issuance of iPads to students in grades 3-8 during the 2013-14 school year, students in grades 9-12 will each receive tablets for the 2014-15 school year as a continuation of the districts one-to-one learning device initiative.

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, 2014

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
ASSETS:		
Cash and temporary investments	\$ 17,055,743	\$ 14,247,994
Receivables-		
Current property taxes	2,106,862	2,389,768
Delinquent property taxes	62,227	44,285
Due from other school districts and governmental unit	300,077	266,734
Due from Department of Education	2,028,181	3,519,705
Due from federal government	403,155	434,579
Accounts and interest receivable	36,174	35,859
Inventory	121,964	109,025
Prepaid items	224,837	202,973
Restricted assets - temporarily restricted-		
Cash and investments for debt service	1,573,962	1,680,366
Cash and investments for construction	1,281,244	1,280,769
Capital assets (net of accumulated depreciation)-		
Land	496,208	496,208
Land improvements	1,507,258	1,593,535
Buildings	21,147,925	21,738,452
Equipment	4,412,332	3,096,339
Vehicles	119,587	112,812
Construction in progress	2,170,297	-
Total assets	\$ <u>55,048,033</u>	\$ <u>51,249,403</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2014
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
LIABILITIES:		
Accounts payable	\$ 587,256	\$ 340,384
Salaries payable	1,054,068	1,022,919
Accrued payroll taxes and other payroll deductions	1,630,251	1,796,069
Accrued interest payable	355,590	384,154
Due to other school districts and governmental units	5,879	14,644
Unearned revenue	90,143	17,874
Long-term liabilities-		
Due within one year	1,971,486	1,701,505
Due in more than one year	<u>21,973,627</u>	<u>23,650,926</u>
Total liabilities	\$ <u>27,668,300</u>	\$ <u>28,928,475</u>
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	\$ <u>4,443,929</u>	\$ <u>3,563,340</u>
NET POSITION:		
Net investment in capital assets	\$ 8,159,851	\$ 3,433,115
Restricted for-		
Debt service	511,515	612,840
Food service	455,312	434,691
Community service	190,213	138,529
Disabled accessibility	65,893	65,893
Capital projects	267,534	301,099
Area learning center	230,333	80,614
Health and safety	165,793	39,375
Other purposes	773,777	1,002,240
Unrestricted	<u>12,115,583</u>	<u>12,649,192</u>
Total net position	\$ <u>22,935,804</u>	\$ <u>18,757,588</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u><u>55,048,033</u></u>	\$ <u><u>51,249,403</u></u>

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

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

<u>Functions/Programs</u>	2014				2014	2013
	Program Revenues				Net (Expense)	Net (Expense)
	Expenses	Charges for	Operating	Capital	Total	Total
		Services	Grants and	Grants and	Governmental	Governmental
			Contributions	Contributions	Activities	Activities
<u>Governmental Activities</u>						
Instruction-						
Regular instruction	\$ 15,050,107	\$ 449,227	\$ 5,855,863	\$ -	\$ (8,745,017)	\$ (8,811,484)
Exceptional instruction	5,149,944	128,322	3,611,627	-	(1,409,995)	(1,421,171)
Vocational instruction	504,685	164	22,560	-	(481,961)	(492,145)
Total instruction	<u>\$ 20,704,736</u>	<u>\$ 577,713</u>	<u>\$ 9,490,050</u>	<u>\$ -</u>	<u>\$ (10,636,973)</u>	<u>\$ (10,724,800)</u>
Support services-						
Instructional support services	\$ 2,015,307	\$ 34,925	\$ 326,630	\$ -	\$ (1,653,752)	\$ (1,902,447)
Pupil support services	4,535,428	368,238	2,114,003	-	(2,053,187)	(1,746,795)
District and school administration	969,713	-	-	-	(969,713)	(837,094)
District support services	539,304	4,950	-	-	(534,354)	(393,730)
Site, buildings and equipment	2,277,252	24,130	45,015	664,609	(1,543,498)	(1,814,165)
Community education and services	1,588,611	120,991	1,345,789	-	(121,831)	(153,385)
Fiscal and other fixed cost programs	713,619	-	-	-	(713,619)	(1,053,156)
Depreciation expense - unallocated	837,057	-	-	-	(837,057)	(847,704)
Total support services	<u>\$ 13,476,291</u>	<u>\$ 553,234</u>	<u>\$ 3,831,437</u>	<u>\$ 664,609</u>	<u>\$ (8,427,011)</u>	<u>\$ (8,748,476)</u>
Total governmental activities	<u>\$ 34,181,027</u>	<u>\$ 1,130,947</u>	<u>\$ 13,321,487</u>	<u>\$ 664,609</u>	<u>\$ (19,063,984)</u>	<u>\$ (19,473,276)</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

General Revenue

Taxes-

Property taxes, levied for general purposes	\$ 959,262	\$ 2,047,933
Property taxes, levied for debt service	2,011,153	2,234,957
Property taxes, levied for specific purpose-		
Integration collaborative	114,629	123,154
Vocational programs	34,358	56,933
Health and Safety projects	180,173	1,615
Building Lease	148,760	294,966
Community Service	88,164	171,142
Safe Schools	101,370	100,035
Other local taxes	40,573	47,643
Property tax replacement aid	106,044	104,447
State aid not restricted to specific purpose-		
General Education aid	19,396,345	17,724,033
Other state aids	2,936	3,721
Interest and investment earnings	42,774	16,112
Other local revenue	23,721	20,948

Subtotal, general revenues	\$ 23,250,262	\$ 22,947,639
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Excess of revenues over expenses before special items	\$ 4,186,278	\$ 3,474,363
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Special Items

Sale or disposal of surplus property and equipment	\$ (8,062)	\$ (10,068)
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Subtotal, special items	\$ (8,062)	\$ (10,068)
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Total general revenues and special items	\$ 23,242,200	\$ 22,937,571
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Change in net position	\$ 4,178,216	\$ 3,464,295
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Net Position, Beginning of year	18,757,588	15,293,293
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Net Position, End of year	\$ 22,935,804	\$ 18,757,588
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INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS

GOVERNMENTAL FUNDS

JUNE 30, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2014	2013
ASSETS:							
Cash and investments	\$ 16,611,353	\$ 350,794	\$ 93,596	\$ 1,281,244	\$ 1,573,962	\$ 19,910,949	\$ 17,209,129
Receivables-							
Current property taxes	1,093,482	-	88,326	-	925,054	2,106,862	2,389,768
Delinquent property taxes	40,007	-	1,686	-	20,534	62,227	44,285
Accounts and interest receivable	23,712	9,232	3,230	-	-	36,174	35,859
Due from other school districts and governmental units	196,488	-	103,589	-	-	300,077	266,734
Due from Department of Education-							
General education aid	1,634,339	-	-	-	-	1,634,339	2,794,182
Special education aid	302,496	-	-	-	-	302,496	626,583
Other education aid	59,837	-	20,893	-	-	80,730	84,764
State lunch aid	-	74	-	-	-	74	-
Market value credit aid	1,039	-	178	-	2,002	3,219	5,339
Disparity aid	2,364	-	404	-	4,555	7,323	8,837
Due from federal government-							
Federal title programs	189,607	-	142,471	-	-	332,078	359,440
School lunch program	-	71,077	-	-	-	71,077	75,139
Due from other funds	-	-	-	-	-	-	119,674
Inventory	80,059	41,905	-	-	-	121,964	109,025
Prepaid items	224,837	-	-	-	-	224,837	202,973
Total assets	<u>\$ 20,459,620</u>	<u>\$ 473,082</u>	<u>\$ 454,373</u>	<u>\$ 1,281,244</u>	<u>\$ 2,526,107</u>	<u>\$ 25,194,426</u>	<u>\$ 24,331,731</u>
LIABILITIES:							
Salaries payable	\$ 1,054,068	\$ -	\$ -	\$ -	\$ -	\$ 1,054,068	\$ 1,022,919
Accrued payroll taxes and other payroll deductions	1,630,251	-	-	-	-	1,630,251	1,796,069
Accounts payable	517,080	173	70,003	-	-	587,256	340,384
Due to other school districts and governmental units	5,879	-	-	-	-	5,879	14,644
Due to other funds	-	-	-	-	-	-	119,674
Unearned revenue	70,546	17,597	2,000	-	-	90,143	17,874
Total liabilities	<u>\$ 3,277,824</u>	<u>\$ 17,770</u>	<u>\$ 72,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,367,597</u>	<u>\$ 3,311,564</u>
DEFERRED INFLOWS OF RESOURCES:							
Property taxes levied for subsequent year's expenditures	\$ 2,259,400	\$ -	\$ 190,471	\$ -	\$ 1,994,058	\$ 4,443,929	\$ 3,563,340
Unavailable revenue - Delinquent taxes	40,007	-	1,686	-	20,534	62,227	44,285
Total deferred inflows of resources	<u>\$ 2,299,407</u>	<u>\$ -</u>	<u>\$ 192,157</u>	<u>\$ -</u>	<u>\$ 2,014,592</u>	<u>\$ 4,506,156</u>	<u>\$ 3,607,625</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2014	2013
FUND BALANCES:							
Nonspendable for-							
Nonspendable amounts	\$ 304,896	\$ 41,905	\$ -	\$ -	\$ -	\$ 346,801	\$ 311,998
Restricted for-							
Operating capital	\$ 267,534	\$ -	\$ -	\$ -	\$ -	\$ 267,534	\$ 301,099
Health and safety	165,793	-	-	-	-	165,793	39,375
Disabled accessibility	65,893	-	-	-	-	65,893	65,893
Deferred maintenance	175,813	-	-	-	-	175,813	263,984
Gifted and talented	25,611	-	-	-	-	25,611	21,223
Area learning center	230,333	-	-	-	-	230,333	80,614
Safe schools	10,243	-	-	-	-	10,243	17,716
Staff development	90,478	-	-	-	-	90,478	-
Food service	-	413,407	-	-	-	413,407	394,415
Community education	-	-	27,790	-	-	27,790	21,535
Adult basic education	-	-	110,128	-	-	110,128	72,871
School readiness	-	-	11,087	-	-	11,087	9,783
Early childhood family education	-	-	38,256	-	-	38,256	25,821
Certificates of participation	471,632	-	-	-	-	471,632	699,317
Alternative facilities	-	-	-	1,281,244	-	1,281,244	1,280,769
Debt service	-	-	-	-	511,515	511,515	612,840
Restricted for other purposes	-	-	2,952	-	-	2,952	2,834
Total restricted fund balances	\$ 1,503,330	\$ 413,407	\$ 190,213	\$ 1,281,244	\$ 511,515	\$ 3,899,709	\$ 3,910,089
Committed for-							
Separation	\$ 330,790	\$ -	\$ -	\$ -	\$ -	\$ 330,790	\$ 354,390
Total committed fund balances	\$ 330,790	\$ -	\$ -	\$ -	\$ -	\$ 330,790	\$ 354,390
Assigned for-							
Projects	\$ 3,500,000	\$ -	\$ -	\$ -	\$ -	\$ 3,500,000	\$ 2,425,000
Total assigned fund balances	\$ 3,500,000	\$ -	\$ -	\$ -	\$ -	\$ 3,500,000	\$ 2,425,000
Unassigned	\$ 9,243,373	\$ -	\$ -	\$ -	\$ -	\$ 9,243,373	\$ 10,411,065
Total fund balances	\$ 14,882,389	\$ 455,312	\$ 190,213	\$ 1,281,244	\$ 511,515	\$ 17,320,673	\$ 17,412,542
Total liabilities, deferred inflows of resources and fund balances	\$ 20,459,620	\$ 473,082	\$ 454,373	\$ 1,281,244	\$ 2,526,107	\$ 25,194,426	\$ 24,331,731

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

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	<u>2014</u>	<u>2013</u>
Total fund balances - governmental funds	\$ 17,320,673	\$ 17,412,542
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the funds.		
Land	496,208	496,208
Construction in progress	2,170,297	-
Land improvements, net of accumulated depreciation	1,507,258	1,593,535
Buildings, net of accumulated depreciation	21,147,925	21,738,452
Equipment and vehicles, net of accumulated depreciation	4,531,919	3,209,151
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	(23,529,771)	(25,278,929)
Capital leases payable	(335,622)	-
Other post employment benefits	(18,422)	(10,085)
Accrued compensated absences payable	(61,298)	(63,417)
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.		
	62,227	44,285
Governmental funds do not report a liability for accrued interest until due and payable.		
	<u>(355,590)</u>	<u>(384,154)</u>
Total net position - governmental activities	\$ <u>22,935,804</u>	\$ <u>18,757,588</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, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2014	2013
REVENUES:							
Local property tax levies	\$ 1,520,611	\$ -	\$ 88,164	\$ -	\$ 2,024,285	\$ 3,633,060	\$ 5,039,679
Other local and county revenues	511,449	720	232,671	475	13,050	758,365	812,941
Revenues from state sources	29,161,133	81,854	879,396	-	65,577	30,187,960	27,015,591
Revenues from federal sources	1,282,091	1,333,993	451,314	-	-	3,067,398	2,722,912
Sales and other conversion of assets	36,163	417,888	104	-	-	454,155	491,674
Interdistrict revenues	248,425	-	-	-	-	248,425	41,279
Total revenues	\$ 32,759,872	\$ 1,834,455	\$ 1,651,649	\$ 475	\$ 2,102,912	\$ 38,349,363	\$ 36,124,076
EXPENDITURES:							
Current expenditures-							
District and school administration	\$ 984,228	\$ -	\$ -	\$ -	\$ -	\$ 984,228	\$ 835,357
District support services	532,376	-	-	-	-	532,376	403,019
Regular instruction	15,761,200	-	-	-	-	15,761,200	14,074,853
Vocational instruction	488,768	-	-	-	-	488,768	481,107
Exceptional instruction	5,120,023	-	-	-	-	5,120,023	5,034,261
Community education and services	-	-	1,590,601	-	-	1,590,601	1,429,826
Instructional support services	1,933,462	-	-	-	-	1,933,462	1,933,700
Pupil support services	2,705,965	1,813,834	9,364	-	-	4,529,163	3,878,158
Site and building services	2,178,784	-	-	-	-	2,178,784	2,257,118
Fiscal and other fixed cost programs	459,852	-	-	-	-	459,852	453,447
Capital outlay	3,173,216	-	-	-	-	3,173,216	872,580
Debt service-							
Principal	-	-	-	-	1,355,000	1,355,000	1,300,000
Interest and other financing costs	-	-	-	-	969,100	969,100	901,070
Total expenditures	\$ 33,337,874	\$ 1,813,834	\$ 1,599,965	\$ -	\$ 2,324,100	\$ 39,075,773	\$ 33,854,496
Excess of revenues over expenditures	\$ (578,002)	\$ 20,621	\$ 51,684	\$ 475	\$ (221,188)	\$ (726,410)	\$ 2,269,580
OTHER FINANCING SOURCES (USES):							
Capital lease proceeds	\$ 508,370	\$ -	\$ -	\$ -	\$ -	\$ 508,370	\$ -
Sale of capital assets	6,308	-	-	-	-	6,308	501
Debt issuance	-	-	-	-	10,424,863	10,424,863	-
Payment to refunded bond escrow agent	-	-	-	-	(10,305,000)	(10,305,000)	-
Total other financing sources (uses)	\$ 514,678	\$ -	\$ -	\$ -	\$ 119,863	\$ 634,541	\$ 501
Net change in fund balances	\$ (63,324)	\$ 20,621	\$ 51,684	\$ 475	\$ (101,325)	\$ (91,869)	\$ 2,270,081
FUND BALANCE, Beginning of year	14,945,713	434,691	138,529	1,280,769	612,840	17,412,542	15,142,461
FUND BALANCE, End of year	\$ 14,882,389	\$ 455,312	\$ 190,213	\$ 1,281,244	\$ 511,515	\$ 17,320,673	\$ 17,412,542

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, 2014
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	<u>2014</u>	<u>2013</u>
Total net changes in fund balances - governmental funds	\$ (91,869)	\$ 2,270,081
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	4,664,953	1,264,770
Depreciation expense	(1,834,322)	(1,664,299)
The amount of bond proceeds used to refund prior school building bonds is reported in the governmental funds as an other financing source. Bond proceeds are not revenues in the statements of activities, but rather constitute long-term liabilities. Issuing debt increases long-term liabilities and does not affect the statement of activities.		
	(10,424,863)	-
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.		
	11,910,000	1,545,000
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.		
Other financing source – capital lease	(508,370)	-
Principal payments – capital leases	172,748	-
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.		
	28,564	23,263

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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	<u>2014</u>	<u>2013</u>
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	\$ 2,119	\$ 9,162
Other post employment benefits	(8,337)	(10,085)
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.	(14,370)	(10,561)
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.	17,942	3,876
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>264,021</u>	<u>33,088</u>
Change in net position - governmental activities	<u>\$ 4,178,216</u>	<u>\$ 3,464,295</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, 2014

	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	\$ 2,774,757	\$ 1,357,434	\$ 1,520,611	\$ 163,177	\$ -	\$ -	\$ -	\$ -	\$ 173,572	\$ 87,611	\$ 88,164	\$ 553
Other local and county revenues	350,975	445,102	511,449	66,347	200	850	720	(130)	73,361	207,326	232,671	25,345
Revenues from state sources	26,921,783	29,286,638	29,161,133	(125,505)	85,100	78,000	81,854	3,854	726,673	882,523	879,396	(3,127)
Revenues from federal sources	1,046,000	1,225,872	1,282,091	56,219	1,311,200	1,289,850	1,333,993	44,143	375,500	455,321	451,314	(4,007)
Sales and other conversion of assets	10,500	10,000	36,163	26,163	441,700	445,000	417,888	(27,112)	-	-	104	104
Interdistrict revenues	-	237,000	248,425	11,425	-	-	-	-	-	-	-	-
Total revenues	\$ 31,104,015	\$ 32,562,046	\$ 32,759,872	\$ 197,826	\$ 1,838,200	\$ 1,813,700	\$ 1,834,455	\$ 20,755	\$ 1,349,106	\$ 1,632,781	\$ 1,651,649	\$ 18,868
EXPENDITURES:												
Current expenditures-												
District and school administration	\$ 1,048,209	\$ 1,057,254	\$ 984,228	\$ 73,026	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District support services	689,058	715,722	532,376	183,346	-	-	-	-	-	-	-	-
Regular instruction	15,020,213	15,788,422	15,761,200	27,222	-	-	-	-	-	-	-	-
Vocational instruction	487,413	487,413	488,768	(1,355)	-	-	-	-	-	-	-	-
Exceptional instruction	5,143,412	5,247,024	5,120,023	127,001	-	-	-	-	-	-	-	-
Community education and services	-	-	-	-	-	-	-	-	1,332,369	1,616,402	1,590,601	25,801
Instructional support services	1,905,676	2,083,024	1,933,462	149,562	-	-	-	-	-	-	-	-
Pupil support services	2,592,340	2,902,844	2,705,965	196,879	1,841,165	1,863,700	1,813,834	49,866	9,265	8,907	9,364	(457)
Site and building services	4,575,440	2,734,646	2,178,784	555,862	-	-	-	-	-	-	-	-
Fiscal and other fixed cost programs	458,098	465,298	459,852	5,446	-	-	-	-	-	-	-	-
Capital outlay	1,208,763	3,427,075	3,173,216	253,859	-	-	-	-	-	-	-	-
Total expenditures	\$ 33,128,622	\$ 34,908,722	\$ 33,337,874	\$ 1,570,848	\$ 1,841,165	\$ 1,863,700	\$ 1,813,834	\$ 49,866	\$ 1,341,634	\$ 1,625,309	\$ 1,599,965	\$ 25,344
Excess (deficit) of revenues over (under) expenditures	\$ (2,024,607)	\$ (2,346,676)	\$ (578,002)	\$ 1,768,674	\$ (2,965)	\$ (50,000)	\$ 20,621	\$ 70,621	\$ 7,472	\$ 7,472	\$ 51,684	\$ 44,212
OTHER FINANCING SOURCES (USES):												
Capital lease proceeds	\$ -	\$ 508,370	\$ 508,370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of capital assets	500	500	6,308	5,808	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ 500	\$ 508,870	\$ 514,678	\$ 5,808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ (2,024,107)	\$ (1,837,806)	\$ (63,324)	\$ 1,774,482	\$ (2,965)	\$ (50,000)	\$ 20,621	\$ 70,621	\$ 7,472	\$ 7,472	\$ 51,684	\$ 44,212
FUND BALANCE, Beginning of year	14,945,713	14,945,713	14,945,713	-	434,691	434,691	434,691	-	138,529	138,529	138,529	-
FUND BALANCE, End of year	\$ 12,921,606	\$ 13,107,907	\$ 14,882,389	\$ 1,774,482	\$ 431,726	\$ 384,691	\$ 455,312	\$ 70,621	\$ 146,001	\$ 146,001	\$ 190,213	\$ 44,212

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

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	\$ 409,562	\$ 57,203
Receivables-		
Accounts receivable	-	216
Due from school districts and governmental units	-	1,846
Total assets	\$ 409,562	\$ 59,265

LIABILITIES AND NET POSITION

LIABILITIES:		
Salaries payable	\$ -	\$ 27,941
Accrued payroll taxes and other payroll deductions	-	701
Accounts payable	1,543	11,287
Due to other school districts and governmental units	-	16,701
Unearned revenue	-	2,635
Total liabilities	\$ 1,543	\$ 59,265
NET POSITION:		
Held in trust	\$ 408,019	\$ -

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, 2014

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Other local and county revenues-	
Interest income	\$ 71
Other local revenues	<u>21,961</u>
Total additions	<u>\$ 22,032</u>
DEDUCTIONS:	
Pupil support services	\$ <u>42,470</u>
Total deductions	<u>\$ 42,470</u>
Change in net position	\$ (20,438)
NET POSITION, Beginning of year	<u>428,457</u>
NET POSITION, End of year	<u><u>\$ 408,019</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. Basis of Presentation-

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.

b. Financial Reporting Entity-

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.

c. 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):

c. 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.

d. Measurement Focus and Basis of Accounting-

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as 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):

d. 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):

d. 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.

e. 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 2014.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. 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, 2014, but which were levied to finance fiscal year 2015 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.

f. 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):

g. 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.

h. 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.

i. 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.

j. 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.

k. 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):

k. 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".

During the 2014 fiscal year, economic conditions improved and the State of Minnesota enacted legislation reducing the tax shift to only the 31% of the Pay 2001 operating referendum (frozen at \$75,873) plus 100% of the levies for vocational programs and unemployment costs

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. 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, 2014 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.

l. 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 \$1,000 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Long-Term Obligations-

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

n. 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.

o. 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.

p. 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.

q. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. 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.

The school district will strive to maintain a minimum unassigned general fund balance of 10% percent of the annual budget at the end of the fiscal year.

s. 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 2014.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. 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.

u. 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, 2013, from which the summarized information was derived.

v. 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.

w. 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.

x. Functional Allocation of Expenses-

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2014:

No funds had expenditures over budget at June 30, 2014.

b. Revenues Under Budget-

Revenues were below budgeted amounts in the following fund at June 30, 2014:

No funds had revenues that were under budget at June 30, 2014.

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, 2014, none of the District's bank balance of \$15,312,169 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, 2014, 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	\$ 54,702
Minnesota School District Liquid Asset Fund Plus MAX Series	AAAm	S & P	99%	N/A	<u>14,272,961</u>
Total investments					\$ 14,327,663
Nonparticipating certificates of deposits					5,950,000
Deposits					<u>100,051</u>
Total cash and investments					<u>\$ 20,377,714</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	\$ 17,053,243
Cash and investments for debt service-restricted-statement of net assets	1,573,962
Cash and investments for construction-restricted-statement of net assets	1,281,244
Cash and temporary investments-statement of fiduciary net assets	<u>469,265</u>
	<u>\$ 20,377,714</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, 2014, was as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 496,208	\$ -	\$ -	\$ 496,208
Construction in progress	<u>-</u>	<u>2,170,297</u>	<u>-</u>	<u>2,170,297</u>
Total capital assets, not depreciated	<u>\$ 496,208</u>	<u>\$ 2,170,297</u>	<u>\$ -</u>	<u>\$ 2,666,505</u>
Capital Assets, depreciated:				
Land improvements	\$ 2,172,762	\$ 7,080	\$ -	\$ 2,179,842
Buildings	34,040,688	198,694	(7,608)	34,231,774
Equipment and vehicles	<u>8,261,913</u>	<u>2,288,882</u>	<u>(425,749)</u>	<u>10,125,046</u>
Total capital assets, depreciated	<u>\$ 44,475,363</u>	<u>\$ 2,494,656</u>	<u>\$ (433,357)</u>	<u>\$ 46,536,662</u>
Less accumulated depreciation for:				
Land improvements	\$ (579,227)	\$ (93,357)	\$ -	\$ (672,584)
Buildings	(12,302,236)	(785,417)	3,804	(13,083,849)
Equipment and vehicles	<u>(5,052,762)</u>	<u>(955,548)</u>	<u>415,183</u>	<u>(5,593,127)</u>
Total accumulated depreciation	<u>\$ (17,934,225)</u>	<u>\$ (1,834,322)</u>	<u>\$ 418,987</u>	<u>\$ (19,349,560)</u>
Net capital assets, depreciated	<u>\$ 26,541,138</u>	<u>\$ 660,334</u>	<u>\$ (14,370)</u>	<u>\$ 27,187,102</u>
Total capital assets, net	<u>\$ 27,037,346</u>	<u>\$ 2,830,631</u>	<u>\$ (14,370)</u>	<u>\$ 29,853,607</u>

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

4. CAPITAL ASSETS (Continued):

Depreciation expense of \$1,834,322 for the year ended June 30, 2014, was charged to the following governmental functions:

Governmental Activities:

Administration	\$ 950
District support services	3,013
Regular instruction	676,672
Vocational instruction	8,678
Exceptional instruction	29,241
Community Service	19,351
Instructional support services	133,214
Pupil support services	26,165
Food service	26,278
Site, buildings and equipment	73,703
Unallocated	837,057
	<u>\$ 1,834,322</u>

5. 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	4.00%	2/1/2016	\$ 1,815,000
General Obligation Alternative Facilities Building Bonds	1/7/2010	2.50%-4.30%	2/1/2030	6,995,000
General Obligation Alternative Facilities Building Bonds	1/7/2010	2.00%-3.75%	2/1/2024	810,000
General Obligation Refunding School Building Bonds	11/14/2013	2.00%-3.00%	2/1/2024	10,000,000
Certificates of Participation	1/7/2010	2.20%-4.40%	4/1/2025	<u>3,355,000</u>
Total general obligation bonds				<u>\$ 22,975,000</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)

5. 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.

In November 2013, the District issued \$10,000,000 of General Obligation Refunding Bonds, Series 2013A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the 2016 and the full amount of the 2017 through 2024 maturities of the 2005A General Obligation Crossover Refunding Bonds totaling \$10,305,000. The proceeds of the 2103A issue were placed in an escrow account until the 2005A bonds call date of February 1, 2014. At that time the District assumed the principal and interest payments for the 2013A issue. This refunding reduces the District's total future debt service payments by approximately \$1,312,538.

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>2014 Amortization</u>
General Obligation Refunding School Building Bonds	3/1/2005	\$ 477,837	2/1/2016	\$ 228,806
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	468
General Obligation Refunding School Building Bonds	11/1/2013	424,863	2/1/2024	<u>27,410</u>
Total current year amortization				<u>\$ 264,021</u>

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

5. LONG-TERM LIABILITIES (Continued):

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:

Year Ending June 30 ,	General Obligation School Building Bonds, Including Refunding Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2015	\$ 1,415,000	\$ 687,806	\$ 255,000	\$ 126,848
2016	1,500,000	571,925	265,000	119,835
2017	1,550,000	522,200	270,000	111,885
2018	1,580,000	487,088	280,000	103,110
2019	1,620,000	451,275	290,000	93,310
2020-2024	8,835,000	1,513,305	1,625,000	289,505
2025-2029	2,550,000	444,170	370,000	16,280
2030	<u>570,000</u>	<u>24,510</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,620,000</u>	<u>\$ 4,702,279</u>	<u>\$ 3,335,000</u>	<u>\$ 860,773</u>

d. Capital Lease Agreement-

On June 23, 2013, the District entered a master lease purchase agreement with Apple, Inc. for ipads. The gross amount of equipment acquired was \$508,370 and delivery of the equipment was scheduled during the 2013-14 fiscal period. Upon payment in full the lessor's (Apple, Inc.) interest in the equipment is transferred to the district, free and clear of any right or interest of Apple, Inc.

e. Special Assessments Payable-

Special Assessments payable represents the outstanding liability relating to various improvements made to district property financed through municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund. As of June 30, 2014 there were no assessments payable.

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

5. LONG-TERM LIABILITIES (Continued):

f. Changes in Long-Term Liabilities-

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>
General obligation school building bonds	\$ 21,280,000	\$10,000,000	\$11,660,000	\$ 19,620,000	\$ 1,415,000
Bond premium	393,929	424,863	264,021	554,771	74,203
Certificates of Participation	3,605,000	-	250,000	3,355,000	255,000
Compensated Absences	63,417	61,298	63,417	61,298	61,298
Other Post Employment Benefits	10,085	8,337	-	18,422	-
Property under Capital Lease	<u>-</u>	<u>508,370</u>	<u>172,748</u>	<u>335,622</u>	<u>165,985</u>
	<u>\$ 25,352,431</u>	<u>\$11,002,868</u>	<u>\$ 12,410,186</u>	<u>\$ 23,945,113</u>	<u>\$1,971,486</u>

6. 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, 2015. Rental expense for the year ended June 30, 2014, was \$36,580.

Future minimum lease payments at June 30, 2014, are as follows:

2015	\$ 23,500
2016	23,500
2017	24,000
2018	24,500
Thereafter	<u>-</u>
	<u>\$ 95,500</u>

7. INTERFUND TRANSFERS:

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. As of June 30, 2014 the District reported no funding transfers.

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

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, 2014 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.

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 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.

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

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Deferred Maintenance-

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

Restricted for Staff Development-

Represents available resources from the levy or aid to be used for future staff development activities.

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.

Restricted for Alternative Facilities-

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

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

8. RESTRICTED FUND BALANCES (Continued):

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. 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.

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, 2014, ten teachers met the requirements representing a potential commitment of approximately \$211,382 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, 2014, was \$16,727.

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

9. EARLY RETIREMENT INCENTIVE (Continued):

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, 2014, there is a potential commitment of \$85,962 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

10. 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. There are 382 active participants, 26 retired participants, and 279 dependents. The plan does not issue a publicly available financial report.

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, 2014, none of the employee bargaining unit contracts and employment agreements include a provision for a District contribution for post-employment healthcare plan premiums.

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

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

c. Annual OPEB Cost and Net OPEB Obligation-

The District's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover 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	(389)
Annual OPEB Cost (Expense)	\$ 64,772
Interest	101
Contributions made	<u>56,536</u>
Increase in Net OPEB Obligation	\$ 8,337
Net OPEB Obligation (Asset) – Beginning of Year	<u>10,085</u>
Net OPEB Obligation (Asset) – End of Year	<u>\$ 18,422</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2011 were:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2014	\$ 64,772	87.28%	\$ 18,422
6/30/2013	65,454	72.85%	10,085
6/30/2012	46,684	91.31%	(7,608)

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 \$14,882,409 for a ratio of UAAL to covered payroll of 5.0%.

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.

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

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

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.

11. 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.

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:

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

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

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

1. Plan Description (continued)-

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 5.4 percent per year.

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

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

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

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

1. Plan Description (continued)-

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.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
(651) 296-2409 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 6.5 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2013 as employee contributions. The employer contribution rates are 6.5 percent for Coordinated members and 10.5 percent for Basic members during fiscal year 2013. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2013, was approximately \$3.92 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2012 and June 30, 2011 were \$3.87 billion and \$3.84 billion, respectively.

The District contributions for the years ended June 30, 2014, 2013 and 2012, were \$978,812, \$868,344, and \$779,244 respectively, equal to the required contributions for each year as set by State Statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will 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

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

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

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.

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.

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

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

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

1. Plan Description (continued)-

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 6.25 percent, respectively, of their annual covered salary in 2013. 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, 2014, 2013 and 2012 were \$379,895, \$360,583, and \$360,002, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

12. 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.

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 2014 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$1,223	\$1,223	5.0%	5.0%	5.0%

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. 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, 2013. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District No. 513-Brewster, Independent School District No. 516- 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. In 2012 Independent School District No. 330 Heron Lake-Okabena joined the Collaborative and in 2013 a consolidation of the Brewster and Round Lake districts occurred. The member 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.

The Collaborative is required to issue a separate audited financial statement detailing their revenues, expenditures and financial position.

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

14. 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.

15. 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.

16. CHANGES IN ACCOUNTING PRINCIPLES:

GASB Statement Number 67 replaces the requirements of Statements Number 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Deferred Contribution Plans*, and Number 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The provisions of the Statement are effective for financial statements for periods beginning after June 15, 2013, and have been implemented by the District. The implementation of GASB 67 had no effect on the financial statements.

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 2,687,503	\$ 2,850,680	\$ 163,177	\$ 2,346,150
Property tax shift	(1,330,069)	(1,330,069)	-	274,612
Total local property tax levies	\$ 1,357,434	\$ 1,520,611	\$ 163,177	\$ 2,620,762
Other local and county revenues-				
County apportionment	\$ 30,000	\$ 19,440	\$ (10,560)	\$ 29,541
Tuition and fees from patrons	164,500	185,161	20,661	166,678
Interest income	10,000	28,567	18,567	13,533
Microsoft litigation settlement	-	-	-	126,523
Other local revenue	240,602	278,281	37,679	321,709
Total other local and county revenues	\$ 445,102	\$ 511,449	\$ 66,347	\$ 657,984
Revenues from state sources-				
Endowment fund apportionment	\$ 75,221	\$ 77,373	\$ 2,152	\$ 78,913
Department of Education aids-				
General education aid	25,977,517	25,169,023	(808,494)	22,698,575
Special education	2,450,000	3,179,799	729,799	2,960,010
Vocational and other education	749,251	700,296	(48,955)	375,570
Other appropriations by the state for replacement of local taxes-				
Market value aid	10,395	10,395	-	6,055
Disparity reduction aid and other	24,254	24,247	(7)	14,499
Total revenues from state sources	\$ 29,286,638	\$ 29,161,133	\$ (125,505)	\$ 26,133,622
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 779,998	\$ 850,264	\$ 70,266	\$ 561,740
Federal aids through SWWC cooperative	445,874	431,827	(14,047)	509,569
Total revenues from federal sources	\$ 1,225,872	\$ 1,282,091	\$ 56,219	\$ 1,071,309
Sales and other conversion of assets-				
Sales of materials and supplies	\$ 10,000	\$ 36,163	\$ 26,163	\$ 49,064
Tuition revenue from other school districts	\$ 237,000	\$ 248,425	\$ 11,425	\$ 41,279
Total revenues	\$ 32,562,046	\$ 32,759,872	\$ 197,826	\$ 30,574,020

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	\$ 31,870	\$ 28,980	\$ 2,890	\$ 30,798
Employee benefits	7,080	5,754	1,326	6,507
Travel	7,500	4,191	3,309	4,792
Other	56,800	29,698	27,102	48,438
General administration-				
Superintendent salary	151,096	153,894	(2,798)	147,981
Administrative support salaries	37,000	37,393	(393)	36,550
Employee benefits	45,455	45,634	(179)	42,034
Travel and other	7,500	1,964	5,536	7,129
Building administration-				
Salaries	443,260	443,899	(639)	315,820
Employee benefits	138,233	138,130	103	99,513
Travel	250	58	192	464
Purchased services	90,710	75,612	15,098	74,103
Supplies and materials	33,000	9,612	23,388	15,265
Other	7,500	9,409	(1,909)	5,963
Total district and school administration \$	<u>1,057,254</u>	<u>\$ 984,228</u>	<u>\$ 73,026</u>	<u>\$ 835,357</u>
District support services-				
District business services-				
Director of finance and personnel salary	\$ 77,884	\$ 76,442	\$ 1,442	\$ 73,450
Administrative support salaries	173,738	176,486	(2,748)	164,837
Employee benefits	115,055	80,277	34,778	81,254
Travel	8,000	6,053	1,947	3,479
Purchased services	74,706	18,107	56,599	11,478
Supplies and materials	7,500	4,548	2,952	4,252
Other	69,210	27,843	41,367	-
Capital outlay	1,225	1,321	(96)	-

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Salaries	\$ 64,400	\$ 61,533	\$ 2,867	\$ -
Employee benefits	16,229	15,817	412	-
Travel	3,200	2,820	380	1,162
Contracted services-				
Printing and publishing	51,600	32,561	19,039	18,095
Legal	30,000	3,458	26,542	2,357
Data processing	7,000	14,000	(7,000)	42,655
Other	12,400	9,983	2,417	-
Supplies and materials	4,800	2,448	2,352	-
Total district support services	\$ 716,947	\$ 533,697	\$ 183,250	\$ 403,019
Regular instruction-				
Salaries-				
Secondary teachers	\$ 4,152,266	\$ 4,157,006	\$ (4,740)	\$ 4,114,439
Elementary teachers	4,202,952	4,104,284	98,668	3,954,118
Kindergarten teachers	539,450	538,268	1,182	522,868
Education aides	870,866	852,994	17,872	750,203
Other	213,945	213,257	688	177,474
Employee benefits	2,722,358	2,725,135	(2,777)	2,793,951
Travel	67,379	40,660	26,719	30,260
Purchased services	139,431	121,258	18,173	150,320
Tuition to other schools	100,550	51,941	48,609	70,207
Pupil transportation	40,950	79,811	(38,861)	41,927
General supplies and materials	170,071	165,541	4,530	159,470
Instructional supplies and materials	232,276	194,009	38,267	151,121
Textbooks	101,033	117,396	(16,363)	84,663
Other	1,432,544	1,525,894	(93,350)	352,523
Capital outlay	494,911	456,600	38,311	194,330
Student activities-				
Salaries	385,849	391,165	(5,316)	354,346
Employee benefits	61,262	61,254	8	104,278
Travel	7,615	8,555	(940)	6,836
Utilities	9,500	8,283	1,217	7,660

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities (continued)-				
Purchased services	\$ 126,805	\$ 119,684	\$ 7,121	\$ 110,499
Pupil transportation	115,788	157,590	(41,802)	92,677
General supplies and materials	45,957	70,919	(24,962)	38,888
Equipment purchased	44,835	52,209	(7,374)	2,935
Other	4,740	4,087	653	3,190
Capital outlay	52,600	54,088	(1,488)	47,784
Total regular instruction	\$ 16,335,933	\$ 16,271,888	\$ 64,045	\$ 14,316,967
Vocational instruction-				
Salaries	\$ 344,666	\$ 344,133	\$ 533	\$ 336,258
Employee benefits	101,322	101,745	(423)	94,089
Travel	1,600	2,923	(1,323)	3,769
Purchased services	250	483	(233)	797
Pupil transportation	7,300	12,582	(5,282)	9,345
Tuition to other schools	17,200	7,084	10,116	18,899
General supplies and materials	1,825	2,887	(1,062)	1,754
Instructional supplies and materials	12,250	13,937	(1,687)	10,753
Other	1,000	2,994	(1,994)	5,443
Capital outlay	7,500	7,239	261	1,667
Total vocational instruction	\$ 494,913	\$ 496,007	\$ (1,094)	\$ 482,774
Exceptional instruction-				
Salaries-				
Teachers	\$ 2,265,471	\$ 2,248,310	\$ 17,161	\$ 2,157,183
Psychologists	130,384	131,350	(966)	136,003
Aides	1,341,801	1,308,165	33,636	1,315,881
Office	97,326	88,702	8,624	98,042
Employee benefits	1,188,026	1,106,931	81,095	1,163,063
Travel	31,450	15,564	15,886	21,511
Professional services	23,000	26,850	(3,850)	20,992

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	\$ 104,010	\$ 83,993	\$ 20,017	\$ 48,672
Other purchased services	9,450	7,494	1,956	8,772
General supplies and materials	13,515	27,229	(13,714)	19,513
Instructional supplies and materials	29,139	68,246	(39,107)	29,731
Other	13,452	7,189	6,263	14,898
Capital outlay	5,000	680	4,320	-
Total exceptional instruction	<u>\$ 5,252,024</u>	<u>\$ 5,120,703</u>	<u>\$ 131,321</u>	<u>\$ 5,034,261</u>
Community education and services-				
Capital outlay	<u>\$ 5,946</u>	<u>\$ 6,208</u>	<u>\$ (262)</u>	<u>\$ 1,269</u>
Instructional support services-				
Salaries-				
Assistant principal	\$ 256,080	\$ 256,062	\$ 18	\$ 323,429
Media	191,785	194,938	(3,153)	179,391
Technology	281,084	280,311	773	228,007
Curriculum development	134,519	125,485	9,034	105,643
Staff development	47,339	73,690	(26,351)	91,440
Secretarial and other	408,237	386,268	21,969	365,026
Employee benefits	378,610	372,273	6,337	361,039
Travel	40,700	21,786	18,914	64,066
Professional services	70,880	70,714	166	68,375
Other purchased services	68,975	25,753	43,222	28,246
General supplies and materials	40,900	20,461	20,439	29,252
Instructional supplies and materials	1,700	1,190	510	1,762
Other	162,215	104,531	57,684	88,024
Capital outlay	56,095	53,820	2,275	125,888
Total instructional support services	<u>\$ 2,139,119</u>	<u>\$ 1,987,282</u>	<u>\$ 151,837</u>	<u>\$ 2,059,588</u>
Pupil support services-				
Guidance and counseling-				
Salaries	\$ 207,637	\$ 207,912	\$ (275)	\$ 213,915
Employee benefits	51,489	53,800	(2,311)	52,071
Supplies and materials	2,200	2,188	12	7,277

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services (continued)-				
Family advocates-				
Salaries	\$ -	\$ -	\$ -	\$ 27,178
Employee benefits	-	-	-	4,419
Purchased services	-	-	-	574
Health services-				
Salaries	32,520	31,555	965	32,604
Employee benefits	10,464	10,071	393	10,376
Travel	400	616	(216)	819
Purchased services	72,055	65,516	6,539	58,093
General supplies and materials	3,150	2,882	268	2,671
Violence prevention-				
Salaries	35,100	35,100	-	34,400
Employee benefits	5,605	5,650	(45)	5,503
Purchased services	45,045	40,338	4,707	42,218
Supplies and materials	1,000	673	327	199
Transportation-				
Salaries	120,000	129,747	(9,747)	111,110
Employee benefits	34,719	34,646	73	37,709
Supplies and materials	800	63	737	170
Contracted services and public carriers	1,421,640	1,297,513	124,127	1,130,095
Other	76,700	75,376	1,324	70,592
Nobles County integration collaborative	778,220	708,868	69,352	360,774
Other support services-				
Supplies and materials	4,100	3,451	649	3,621
Total pupil support services	\$ 2,902,844	\$ 2,705,965	\$ 196,879	\$ 2,206,388

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	\$ 823,036	\$ 766,674	\$ 56,362	\$ 755,435
Employee benefits	201,406	187,996	13,410	194,580
Travel	500	-	500	25
Repairs and maintenance service	312,300	278,366	33,934	299,890
Fuel for buildings	230,000	216,976	13,024	144,738
Utilities, except for fuel for buildings	617,400	535,496	81,904	510,569
Custodial supplies and materials	140,730	130,982	9,748	134,651
Other	129,274	62,294	66,980	211,492
Capital outlay-				
Operating capital	94,856	88,326	6,530	48,271
Deferred maintenance	280,000	266,443	13,557	146,702
Projects using committed or unrestricted funds	2,603,612	2,184,736	418,876	223,366
Health and safety	105,330	53,755	51,575	83,303
Disabled accessibility	-	-	-	5,738
Total site, buildings and equipment	\$ 5,538,444	\$ 4,772,044	\$ 766,400	\$ 2,758,760
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	\$ 80,000	\$ 74,554	\$ 5,446	\$ 67,959
Debt redemption-				
Certificate of participation principal	250,000	250,000	-	245,000
Certificate of participation interest	133,098	133,098	-	138,488
Certificate of participation other expense	2,200	2,200	-	2,000
Total fiscal and other fixed cost programs	\$ 465,298	\$ 459,852	\$ 5,446	\$ 453,447
Total expenditures	\$ 34,908,722	\$ 33,337,874	\$ 1,570,848	\$ 28,551,830
Excess (deficit) of revenues over expenditures	\$ (2,346,676)	\$ (578,002)	\$ 1,768,674	\$ 2,022,190

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
OTHER FINANCING SOURCES:				
Capital lease proceeds	\$ 508,370	\$ 508,370	\$ -	\$ -
Transfer from Capital Projects fund	-	-	-	699,215
Sale of capital assets	500	6,308	5,808	501
	<u>500</u>	<u>6,308</u>	<u>5,808</u>	<u>501</u>
Total other financing sources	\$ 508,870	\$ 514,678	\$ 5,808	\$ 699,716
	<u>508,870</u>	<u>514,678</u>	<u>5,808</u>	<u>699,716</u>
Net change in fund balances	\$ (1,837,806)	\$ (63,324)	\$ 1,774,482	\$ 2,721,906
	<u>(1,837,806)</u>	<u>(63,324)</u>	<u>1,774,482</u>	<u>2,721,906</u>
FUND BALANCE, Beginning of year	14,945,713	14,945,713	-	12,223,807
	<u>14,945,713</u>	<u>14,945,713</u>	<u>-</u>	<u>12,223,807</u>
FUND BALANCE, End of year	\$ 13,107,907	\$ 14,882,389	\$ 1,774,482	\$ 14,945,713
	<u>13,107,907</u>	<u>14,882,389</u>	<u>1,774,482</u>	<u>14,945,713</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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local sales and other revenues-				
Meals sold	\$ 445,000	\$ 417,888	\$ (27,112)	\$ 442,480
Other local revenues	850	720	(130)	1,003
Total local sales and other revenues	\$ 445,850	\$ 418,608	\$ (27,242)	\$ 443,483
State sources-				
State lunch and breakfast program aid	\$ 78,000	\$ 81,854	\$ 3,854	\$ 72,900
Total state sources	\$ 78,000	\$ 81,854	\$ 3,854	\$ 72,900
Federal sources-				
Regular lunch and breakfast	\$ 448,500	\$ 467,564	\$ 19,064	\$ 426,578
Free and reduced	695,000	750,334	55,334	671,022
Summer food program	89,000	87,795	(1,205)	89,178
Commodity rebates	7,350	1,495	(5,855)	6,698
Commodities used	50,000	26,805	(23,195)	73,153
Total federal sources	\$ 1,289,850	\$ 1,333,993	\$ 44,143	\$ 1,266,629
Total revenues	\$ 1,813,700	\$ 1,834,455	\$ 20,755	\$ 1,783,012
EXPENDITURES:				
Pupil support services-				
Salaries	\$ 531,100	\$ 532,813	\$ (1,713)	\$ 496,402
Employee benefits	153,140	173,895	(20,755)	145,382
Repairs and maintenance	10,000	1,141	8,859	4,492
Utilities	9,880	10,250	(370)	10,250
Other purchased services	49,745	42,757	6,988	47,763
General supplies and materials	55,025	59,047	(4,022)	51,569
Food	1,040,105	974,283	65,822	895,382
Equipment purchased	8,500	18,821	(10,321)	12,202
Other	6,205	827	5,378	643
Total pupil support services	\$ 1,863,700	\$ 1,813,834	\$ 49,866	\$ 1,664,085
Total expenditures	\$ 1,863,700	\$ 1,813,834	\$ 49,866	\$ 1,664,085
Net change in fund balances	\$ (50,000)	\$ 20,621	\$ 70,621	\$ 118,927
FUND BALANCE, Beginning of year	434,691	434,691	-	315,764
FUND BALANCE, End of year	\$ 384,691	\$ 455,312	\$ 70,621	\$ 434,691

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 177,162	\$ 177,715	\$ 553	\$ 163,971
Property tax shift	(89,551)	(89,551)	-	7,170
Total local property tax levies	\$ 87,611	\$ 88,164	\$ 553	\$ 171,141
Other local and county revenues-				
Tuition and fees from patrons	\$ 140,745	\$ 142,207	\$ 1,462	\$ 51,019
Other local revenues	66,581	90,464	23,883	100,659
Total other local and county revenues	\$ 207,326	\$ 232,671	\$ 25,345	\$ 151,678
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	\$ 876,696	\$ 873,571	\$ (3,125)	\$ 725,176
Other appropriations by the state for replacement of local taxes-				
Disparity and other	5,827	5,825	(2)	5,762
Total revenues from state sources	\$ 882,523	\$ 879,396	\$ (3,127)	\$ 730,938
Revenues from federal sources-				
Federal aids through Minnesota Department of Education	\$ 455,321	\$ 451,314	\$ (4,007)	\$ 384,974
Total revenues from federal sources	\$ 455,321	\$ 451,314	\$ (4,007)	\$ 384,974
Sales and other conversion of assets-				
Sales of materials and supplies	\$ -	\$ 104	\$ 104	\$ 130
Total revenues	\$ 1,632,781	\$ 1,651,649	\$ 18,868	\$ 1,438,861

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
Community education and services-				
Civic activities and general	\$ 146,000	\$ 146,104	\$ (104)	\$ 145,147
Early Childhood Family Education	161,526	151,516	10,010	184,201
21st Century Learning Center	300,000	306,712	(6,712)	262,241
Pathways Early Learning	92,745	77,770	14,975	-
School readiness	47,808	46,503	1,305	45,089
Preschool screening	17,439	15,203	2,236	13,968
Parent involvement	32,950	32,593	357	-
Youth programs	87,443	86,198	1,245	61,018
Adult education programs	716,813	714,311	2,502	706,063
Non-public school assistance-				
Textbooks and standardized tests	13,678	13,691	(13)	12,099
Total community education and services	<u>\$ 1,616,402</u>	<u>\$ 1,590,601</u>	<u>\$ 25,801</u>	<u>\$ 1,429,826</u>
Pupil support services-				
Non-public school health services-				
Salaries	\$ 7,525	\$ 7,983	\$ (458)	\$ 6,675
Employee benefits	1,212	1,222	(10)	1,010
Other	170	159	11	-
Total pupil support services	<u>\$ 8,907</u>	<u>\$ 9,364</u>	<u>\$ (457)</u>	<u>\$ 7,685</u>
Total expenditures	<u>\$ 1,625,309</u>	<u>\$ 1,599,965</u>	<u>\$ 25,344</u>	<u>\$ 1,437,511</u>
Net change in fund balances	<u>\$ 7,472</u>	<u>\$ 51,684</u>	<u>\$ 44,212</u>	<u>\$ 1,350</u>
FUND BALANCE, Beginning of year	138,529	138,529	-	137,179
FUND BALANCE, End of year	<u>\$ 146,001</u>	<u>\$ 190,213</u>	<u>\$ 44,212</u>	<u>\$ 138,529</u>

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014		2013
	Final Budget	Actual	Variance with Final Budget
			Actual
REVENUES:			
Other local and county revenues-			
Interest income	\$ -	\$ 475	\$ 475
Total revenues	\$ -	\$ 475	\$ 475
EXPENDITURES:			
Site, buildings and equipment-			
Purchased services	\$ -	\$ -	\$ -
Buildings	-	-	-
Equipment	-	-	-
Total site, buildings and equipment	\$ -	\$ -	\$ -
Total expenditures	\$ -	\$ -	\$ -
Excess (deficit) of revenues over expenditures	\$ -	\$ 475	\$ 475
OTHER FINANCING SOURCES (USES):			
Transfer (to) general fund	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ 475	\$ 475
FUND BALANCE, Beginning of year	1,280,769	1,280,769	-
FUND BALANCE, End of year	\$ 1,280,769	\$ 1,281,244	\$ 475

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, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014		2013	
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies	\$ 2,019,431	\$ 2,024,285	\$ 4,854	\$ 2,247,776
Other local and county revenues-				
Interest income	\$ 12,583	\$ 13,050	\$ 467	\$ 1,553
Revenues from state sources-				
Appropriations by the state for replacement of local taxes-				
Homestead and agricultural credit aid	\$ 45,550	\$ 20,027	\$ (25,523)	\$ 23,240
Disparity and other	20,027	45,550	25,523	54,891
Total revenues from state sources	\$ 65,577	\$ 65,577	\$ -	\$ 78,131
Total revenues	\$ 2,097,591	\$ 2,102,912	\$ 5,321	\$ 2,327,460
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	\$ 1,355,000	\$ 1,355,000	\$ -	\$ 1,300,000
Interest expense	846,345	846,345	-	898,195
Other expense	122,760	122,755	5	2,875
Total debt redemption	\$ 2,324,105	\$ 2,324,100	\$ 5	\$ 2,201,070
Total expenditures	\$ 2,324,105	\$ 2,324,100	\$ 5	\$ 2,201,070
Excess (deficit) of revenues over expenditures	\$ (226,514)	\$ (221,188)	\$ 5,326	\$ 126,390
OTHER FINANCING SOURCES (USES):				
Debt issuance	10,424,863	10,424,863	-	-
Payment to refunded bond escrow agent	(10,305,000)	(10,305,000)	-	-
Total other financing sources (uses)	\$ 119,863	\$ 119,863	\$ -	\$ -
Net change in fund balances	\$ (106,651)	\$ (101,325)	\$ 5,326	\$ 126,390
FUND BALANCE, Beginning of year	612,840	612,840	-	486,450
FUND BALANCE, End of year	\$ 506,189	\$ 511,515	\$ 5,326	\$ 612,840

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2014

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2013)

	Trust Fund	Agency Funds	Totals	
	Private Purpose	Interdistrict		
	Trust Fund	Integration	2014	2013
ASSETS:				
Cash and investments	\$ 409,562	\$ 57,203	\$ 466,765	\$ 458,839
Receivables-				
Accounts receivable	-	216	216	1,193
Due from school districts and governmental units	-	1,846	1,846	-
Total assets	<u>\$ 409,562</u>	<u>\$ 59,265</u>	<u>\$ 468,827</u>	<u>\$ 460,032</u>
LIABILITIES:				
Salaries payable	\$ -	\$ 27,941	\$ 27,941	\$ 14,866
Accrued payroll taxes and other payroll deductions	-	701	701	-
Accounts payable	1,543	11,287	12,830	7,374
Due to other school districts and governmental units	-	16,701	16,701	9,121
Unearned revenue	-	2,635	2,635	214
Total liabilities	<u>\$ 1,543</u>	<u>\$ 59,265</u>	<u>\$ 60,808</u>	<u>\$ 31,575</u>
NET POSITION:				
Held in trust	<u>408,019</u>	<u>-</u>	<u>408,019</u>	<u>428,457</u>
Total liabilities and net position	<u>\$ 409,562</u>	<u>\$ 59,265</u>	<u>\$ 468,827</u>	<u>\$ 460,032</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2014

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013
	Final Budget	Actual	Variance with Final Budget	Actual
ADDITIONS:				
Other local and county revenues-				
Interest income	\$ 130	\$ 71	\$ (59)	\$ 112
Other local revenues	123,000	21,961	(101,039)	174,794
Total other local and county revenues	\$ 123,130	\$ 22,032	\$ (101,098)	\$ 174,906
Total revenues	\$ 123,130	\$ 22,032	\$ (101,098)	\$ 174,906
DEDUCTIONS:				
Other pupil support	\$ 105,000	\$ 42,470	\$ 62,530	\$ 43,994
Total expenditures	\$ 105,000	\$ 42,470	\$ 62,530	\$ 43,994
Change in net position	\$ 18,130	\$ (20,438)	\$ (38,568)	\$ 130,912
NET POSITION, Beginning of year	428,457	428,457	-	297,545
NET POSITION, End of year	\$ 446,587	\$ 408,019	\$ (38,568)	\$ 428,457

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
INTERDISTRICT INTEGRATION:				
Assets-				
Cash	\$ 25,210	\$ 967,197	\$ 935,204	\$ 57,203
Accounts receivable	528	216	528	216
Due from governmental units	-	1,846	-	1,846
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 25,738	\$ 969,259	\$ 935,732	\$ 59,265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities-				
Salaries and employee benefits payable	\$ 14,866	\$ 28,642	\$ 14,866	\$ 28,642
Accounts payable	1,537	318,249	308,499	11,287
Due to other school districts and governmental units	9,121	16,701	9,121	16,701
Unearned revenue	214	3,106	685	2,635
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$ 25,738	\$ 366,698	\$ 333,171	\$ 59,265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULES OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
CAPITAL ASSETS:					
Land	\$ 496,208	\$ -	\$ -	\$ -	\$ 496,208
Land improvements	2,172,762	7,080	-	-	2,179,842
Buildings	34,040,688	198,694	-	(7,608)	34,231,774
Equipment	8,017,708	2,256,972	-	(425,749)	9,848,931
Vehicles	244,205	31,910	-	-	276,115
Construction in progress	-	2,170,297	-	-	2,170,297
Total capital assets	<u>\$ 44,971,571</u>	<u>\$ 4,664,953</u>	<u>\$ -</u>	<u>\$ (433,357)</u>	<u>\$ 49,203,167</u>
CAPITAL ASSETS BY SOURCE:					
General and special revenue funds	\$ 7,929,149	\$ 4,156,583	\$ -	\$ (433,357)	\$ 11,652,375
General obligation bonds	36,330,306	-	-	-	36,330,306
Capital leases	-	508,370	-	-	508,370
Federal grants	712,116	-	-	-	712,116
Total capital assets by source	<u>\$ 44,971,571</u>	<u>\$ 4,664,953</u>	<u>\$ -</u>	<u>\$ (433,357)</u>	<u>\$ 49,203,167</u>
CAPITAL ASSETS BY FUNCTION AND ACTIVITY:					
Administration	\$ 25,753	\$ 14,893	\$ -	\$ -	\$ 40,646
Instruction	5,522,400	1,901,695	-	(295,947)	7,128,148
Instructional support services	1,032,109	105,227	-	(50,609)	1,086,727
Pupil support services	294,063	32,280	-	(911)	325,432
Food service	530,682	13,898	-	(16,266)	528,314
Community education and services	164,048	28,382	-	(42,529)	149,901
Site, buildings and equipment	37,402,516	2,568,578	-	(27,095)	39,943,999
Total capital assets by function and activity	<u>\$ 44,971,571</u>	<u>\$ 4,664,953</u>	<u>\$ -</u>	<u>\$ (433,357)</u>	<u>\$ 49,203,167</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2014, 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%
06/30/2014	\$ -	\$ 750,522	\$(750,522)	0.0%	\$ 14,882,409	5.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	\$ -	0.00%
2010	-	0.00%
2011	-	0.00%
2012	-	0.00%
2013	-	0.00%
2014	-	0.00%

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2014-1.

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*.

District's Response to Findings

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.

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.

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.

Dwaleen K. H. Hoetke & Co., P.A.

Worthington, Minnesota
October 13, 2014

DREALAN KVILHAUG HOEFKER & Co., P.A.



Member
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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, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2014.

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 item, 2014-001. 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.

Breaken Kridhavy Huethke & Co., P.A.

Worthington, Minnesota
October 13, 2014

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<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*	\$ 297,943
School Lunch	10.555*	900,182
After School Snack	10.555*	19,773
Commodities Distribution (Note B)	10.555*	26,805
Summer Food Service program	10.559*	<u>87,795</u>
Total Nutrition Cluster		\$ <u>1,332,498</u>
Commodity Cash Rebate Program	10.S6209	\$ <u>1,495</u>
Total U.S. Department of Agriculture		\$ <u>1,333,993</u>
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	\$ <u>40,270</u>
English Language/Civics Appropriations	84.002A	\$ <u>40,000</u>
21 st Century Community Learning Center	84.287*	\$ <u>306,712</u>
Title VI, Part B Rural and Low Income Schools	84.358	\$ <u>49,269</u>
English Language Acquisition	84.365	\$ <u>85,473</u>
Teacher and Principal Training and Recruiting	84.367	\$ <u>61,984</u>
Migrant Education	84.011	\$ <u>2,300</u>
Special Education Cluster:		
Special Education	84.027*	\$ 341,895
Special Education Coordinated Early Intervening Services	84.027*	77,662
Special Education Preschool Grants	84.173*	<u>12,271</u>
Total Special Education Cluster		\$ <u>431,828</u>
Title I:		
Title I Grants to LEA's	84.010*	\$ <u>653,538</u>
Total Title I		\$ <u>653,538</u>
Total U.S. Department of Education		\$ <u>1,671,374</u>
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	\$ 26,236
Refugee Social Services Youth Development	93.566	<u>37,450</u>
Total U.S. Department of Health & Human Services		\$ <u>63,686</u>
Total expenditures of Federal Awards		\$ <u>3,069,053</u>

*Denotes major program

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, 2014

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.

NOTE C – PROGRAM NUMBERS

The individual grant identification numbers assigned by the pass-through agencies are unknown.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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
21 ST Century Community Learning Center	CFDA No. 84.287

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

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2014-1.	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, 2015
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

2014-001.	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, 2014

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

SIGNIFICANT DEFICIENCIES (continued)

2014-001. 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, 2015
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, 2014

A. 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.

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

2013-001.	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.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.
	Current Status:	The District has continued to monitor the issue, where possible duties have been segregated in fiscal year 2014.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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

2013-002. 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.

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

Current Status: There were not issues of a lack of supporting documentation evident in fiscal year 2014.

2013-003. 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 untimely mileage reimbursement; and one instance where the expenditure was recorded in the wrong program.

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

Current Status: There were not issues of untimely reimbursement or lack of supporting documentation evident in fiscal year 2014

DREALAN KVILHAUG HOEFKER & Co., P.A.



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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, 2014, and have issued our report thereon dated October 13, 2014.

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, we discovered instances where Independent School District No. 518 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and which are described in the accompanying legal compliance schedule of findings as items, MN2014-1 and MN2014-2. 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
October 13, 2014

INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

CURRENT AUDIT

FINDINGS:

MN2014-1 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, 2015.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this corrective action plan.

MN2014-2 Independent School District No. 518 did not remit payment within the required 35 day time frame, as required in Minnesota Statute Section 471.425, subdivision 2.

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 strive to remit payment within the required time frame as required by Minnesota Statute Section 471.425, subdivision 2.

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, 2015.

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, 2014

INDEPENDENT SCHOOL DISTRICT NO. 518

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

June 30, 2014

	AUDIT	UFARS	Difference		AUDIT	UFARS	Difference
<u>01 GENERAL FUND</u>				<u>06 BUILDING</u>			
Total Revenue	\$ 32,759,872	\$ 32,759,872	\$ -	Total Revenue	\$ 475	\$ 475	\$ -
Total Expenditures	33,337,874	33,337,875	(1)	Total Expenditures	-	-	-
Nonspendable:				Nonspendable:			
460 Nonspendable Fund Balance	304,896	304,896	-	460 Nonspendable Fund	-	-	-
Restricted/Reserve:				Restricted/Reserve:			
403 Staff Development	90,478	90,478	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	175,813	175,813	-	409 Alternative Facility	1,281,244	1,281,244	-
406 Health & Safety	165,793	165,793	-	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	2,102,912	2,102,912	-
423 Certain Teacher Programs	-	-	-	Total Expenditures	2,324,100	2,324,100	-
424 Operating Capital	267,534	267,534	-	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	230,333	230,333	-	451 QZAB Payments	-	-	-
435 Contracted Alt. Programs	-	-	-	Restricted:			
436 State Approved Alt. Program	-	-	-	464 Restricted Fund Balance	511,515	511,515	-
438 Gifted & Talented	25,611	25,611	-	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	10,243	10,243	-	Total Revenue	22,032	22,033	(1)
450 Prekindergarten	-	-	-	Total Expenditures	42,470	42,471	(1)
451 QZAB Payments	-	-	-	422 Net Assets	408,019	408,019	-
452 OPEB Liab not in Trust	-	-	-				
453 Unfndd Sev & Retiremt Levy	-	-	-	20 INTERNAL SERVICE			
Restricted:				Total Revenue	-	-	-
464 Restricted Fund Balance	471,632	471,632	-	Total Expenditures	-	-	-
Committed:				422 Net Assets	-	-	-
418 Committed For Separation	330,790	330,790	-				
461 Committed Fund Balance	-	-	-	<u>25 OPEB Revocable Turst Fund</u>			
Assigned:				Total Revenue	-	-	-
462 Assigned Fund Balance	3,500,000	3,500,000	-	Total Expenditures	-	-	-
Unassigned:				422 Net Assets	-	-	-
422 Unassigned Fund Balance	9,243,373	9,243,374	(1)				
<u>02 FOOD SERVICE</u>				<u>45 OPEB Irrevocable Turst Fund</u>			
Total Revenue	1,834,455	1,834,455	-	Total Revenue	-	-	-
Total Expenditures	1,813,834	1,813,834	-	Total Expenditures	-	-	-
Nonspendable:				422 Net Assets	-	-	-
460 Nonspendable Fund Balance	41,905	41,905	-				
Restricted:				<u>47 OPEB Debt Service Fund</u>			
452 OPEB Liab not in Trust	-	-	-	Total Revenue	-	-	-
464 Restricted Fund Balance	413,407	413,408	(1)	Total Expenditures	-	-	-
Unassigned:	-	-	-	Nonspendable:			
Unreserved:				460 Nonspendable Fund	-	-	-
463 Unassigned Fund Balance	-	-	-	Restricted:			
<u>04 COMMUNITY SERVICE</u>				464 Restricted Fund Balance	-	-	-
Total Revenue	1,651,649	1,651,649	-	Unassigned:			
Total Expenditures	1,599,965	1,599,965	-	463 Unassigned Fund Balance	-	-	-
Nonspendable:							
460 Nonspendable Fund Balance	-	-	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	27,790	27,790	-				
432 E.C.F.E.	38,256	38,256	-				
444 School Readiness	11,087	11,087	-				
447 Adult Basic Education	110,128	110,128	-				
452 OPEB Liab not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	2,952	2,952	-				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				