

INDEPENDENT AUDITOR'S REPORT
INDEPENDENT SCHOOL DISTRICT NO. 403
IVANHOE, MINNESOTA 56142
FOR THE YEAR ENDING JUNE 30, 2014

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
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BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2014

BOARD OF EDUCATION

Steve Citterman	Chairperson
Matt Landrus	Vice-Chairperson
Marty Rost	Treasurer
Beth Otto	Clerk
Archie Citterman	Director
Gene Panka	Director

ADMINISTRATIVE PERSONNEL

Dan Deitte	Superintendent
Courtney Frie	Principal
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

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INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials 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 of material misstatement.

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2013, and in our report dated December 20, 2013, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 risk 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, and each major fund, of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for General Fund and Major Special Revenue Funds (Food Service Fund and Community Service Fund), for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 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.

Change in Accounting Principle

As described in Note 19 to the financial statements, in 2014 the District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 –11 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 Independent School District No. 403's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of the Independent School District No. 403'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 403's internal control over financial reporting and compliance.



Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Pipestone, Minnesota
December 2, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014

This section of the Independent School District No. 403's annual financial report presents management's 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 other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is presented in the MD&A.

Financial Highlights

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

- Net position decreased by \$541,594, or 88.1% over June 30, 2013.
- Total governmental revenues decreased by \$95,976 or 3.3% in comparison to fiscal year 2013, while expenditures increased by \$104,076 or 3.7% in comparison to fiscal year 2013. The reason for the increase in expenditures is due to changes in salaries.

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 District-wide financial statements and fund financial statements and the notes to the financial statements.

District-Wide Statements

The District-wide statements (statement of net assets 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 assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds. The District maintains the following funds:

- Governmental Funds - The District's services are included in this type of fund, which generally focuses 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 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 activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Position. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds (District-Wide Statements)

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 403, assets did not exceed liabilities by \$1,155,886 at the close of the most recent fiscal year. This was a decrease of \$541,594 or 88.1% from the previous year total of \$614,292.

Table 1 is a summarized view of the District's Statement of Net Position.

Table 1 Statement of Net Position As of June 30, 2014		
<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current and other assets	1,875,567	1,918,390
Capital assets, net of depreciation	8,667,472	9,194,443
Total Assets	<u>10,543,039</u>	<u>11,112,833</u>
<u>Liabilities</u>		
Current and other liabilities	3,182,968	2,991,180
Long-term liabilities	8,515,957	8,735,945
Total Liabilities	<u>11,698,925</u>	<u>11,727,125</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	2,166	254,137
Restricted	554,760	322,418
Unrestricted	(1,712,812)	(1,190,847)
Net Position	<u>(1,155,886)</u>	<u>(614,292)</u>
Total Liabilities and Net Position	<u>10,543,039</u>	<u>11,112,833</u>

Independent School District No. 403
Ivanhoe, Minnesota

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net assets of the District.

Table 2
Change in Net Position
For the year ended June 30, 2014

	<u>2014</u>	<u>2013</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	108,897	110,842
Operating Grants and Contributions	236,617	249,424
General Revenues		
Property Taxes	791,638	941,227
Unrestricted Federal and State Aid	1,573,669	1,524,745
Other	<u>96,155</u>	<u>68,618</u>
Total revenues	2,806,976	2,894,856
<u>Expenses</u>		
District and School Administration	147,810	143,893
District Support Services	58,208	56,783
Regular Instruction	1,242,042	1,040,223
Vocational Instruction	102,976	116,093
Exceptional Instruction	221,476	188,628
Instructional Support Services	25,357	28,786
Pupil Support Services	233,343	214,361
Site, Buildings, and Equipment	753,128	739,140
Fiscal and Other Fixed Cost Programs	22,252	20,112
Food Service	128,041	125,112
Community Service	56,739	70,648
Interest and Fiscal Charges on		
Long-term Liabilities	<u>357,198</u>	<u>366,473</u>
Total expenses	3,348,570	3,110,252
Change in net position before		
Extraordinary Items	(541,594)	(215,396)
Extraordinary Items		
Arbitration Settlement	<u> </u>	<u>(1,225,502)</u>
Change in Net Position	<u>(541,594)</u>	<u>(1,440,898)</u>

The district's total revenue consisted of program revenues of \$345,514, property taxes of \$791,638, federal and state aid not restricted to specific purposes of \$1,573,669, and other revenues of \$96,155.

The cost of all governmental activities this year was \$3,348,570.

- The users of the district programs paid for \$108,897 or 3.3% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$236,617 or 7.1% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$1,573,669 or 47.0% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

**Figure A - Sources of Revenues for Fiscal Year
2014**

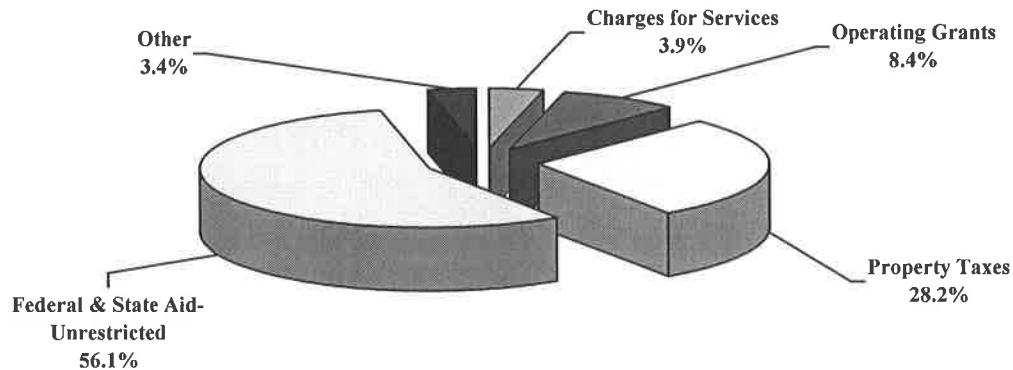
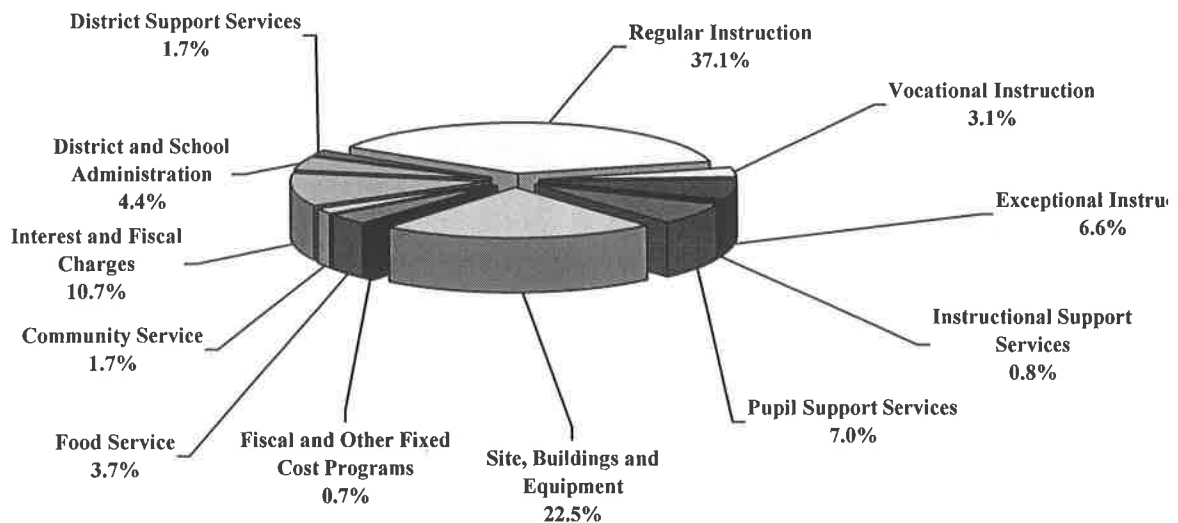


Figure B - Expenses for Fiscal Year 2014



Financial Analysis of the District's Funds (Fund Financial Statements)

Fund Balance

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund deficit of \$(875,224), which is a decrease of \$119,819 over the prior year fund balance of \$(755,405). As further discussed in Note 14 and Note 15 the district was not successful in their appeal of an arbitrators ruling requiring them to pay damages to Independent School District No. 402, Hendricks, MN of \$1,225,502. Subsequent to June 30, 2014 the district obtained bonded financing which will allow the payment of the damages awarded and future tax levies will be used to repay the bonded debt. The General Fund decrease of \$137,497 is mainly due increase in salary expense. The Food Service Fund had an increase of \$1,573. The Community Service Fund an increase of \$24,468. The Debt Service Fund had a decrease of \$8,363.

Revenues and Expenditures/Expenses

Revenues of the district's governmental funds totaled \$2,796,398 while total expenditures were \$2,926,180. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	1,963,733	2,109,202	7,972	(137,497)
Food Service Fund	127,623	128,041	1,991	1,573
Community Service Fund	81,207	56,739		24,468
Debt Service Fund	<u>623,835</u>	<u>632,198</u>	<u> </u>	<u>(8,363)</u>
Total	<u>2,796,398</u>	<u>2,926,180</u>	<u>9,963</u>	<u>(119,819)</u>

General Fund Budgetary Analysis

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2014, the District did not revise the budget.

- Actual general fund revenues were less than budget by \$3,051 primarily due to differences in state aids.
- Actual general fund expenditures exceeded the budget by \$34,079 primarily due to under budgeting expenditures for salaries.

Independent School District No. 403
Ivanhoe, Minnesota

Capital Assets

Additions for the fiscal year of \$8,028 include the purchase of fan motor and computer server.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2014.

Table 3
Capital Assets

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	10,093,594	10,093,594	
Buildings and Improvements	1,035,699	1,030,999	4,700
Equipment	307,386	304,798	2,588
Vehicles	20,592	20,592	
Less: Accumulated Depreciation	<u>(2,789,799)</u>	<u>(2,260,290)</u>	<u>(529,509)</u>
Total	<u>8,677,166</u>	<u>9,204,137</u>	<u>(522,221)</u>
Depreciation Expense	<u>534,999</u>	<u>534,598</u>	<u>401</u>

Long-Term Liabilities

In fiscal year 2014 the District had General Obligation School Building Bonds of 2008 with an outstanding balance of \$8,675,000. Severance liability increased by \$170,419.

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Contacting the District's Management

This financial report is designed to provide 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 Independent School District No. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets		
Cash and Investments	1,228,187	1,323,763
Receivables:		
Property Taxes	475,406	431,003
Governmental Units	157,014	146,065
Other	393	1,346
Inventory	3,315	1,742
Prepaid Items	1,558	4,777
Capital Assets:		
Non-Depreciable	9,694	9,694
Depreciable - net of accumulated depreciation	8,667,472	9,194,443
Total Assets	<u>10,543,039</u>	<u>11,112,833</u>
 <u>Liabilities</u>		
Accounts Payable	14,161	35,843
Salaries Payable	80,699	80,922
Due to Other Governmental Units	1,234,655	1,233,156
Payroll Deductions	46,107	44,778
Deferred Revenue	5,340	9,440
Property Taxes Levied for Subsequent Year	988,924	778,026
Short Term Indebtedness	361,180	472,520
Long-term Liabilities:		
Portion Due Within One Year	451,902	336,495
Portion Due in More Than One Year	8,515,957	8,735,945
Total Liabilities	<u>11,698,925</u>	<u>11,727,125</u>
 <u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	2,166	254,137
Restricted for:		
General Fund State Mandated Purposes	352,186	137,522
Food Service	3,315	1,742
Community Service	74,725	50,257
Debt Service	124,534	132,897
Unrestricted	(1,712,812)	(1,190,847)
Total Net Position	<u>(1,155,886)</u>	<u>(614,292)</u>
Total Liabilities and Net Position	<u>10,543,039</u>	<u>11,112,833</u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Government Activities</u>	
					<u>2014</u>	<u>2013</u>
Governmental Activities						
District and School Administration	147,810				(147,810)	(143,893)
District Support Services	58,208				(58,208)	(56,783)
Regular Instruction	1,242,042	19,267	108,867		(1,113,908)	(929,346)
Vocational Instruction	102,976				(102,976)	(116,093)
Exceptional Instruction	221,476		45,947		(175,529)	(94,204)
Instructional Support Services	25,357				(25,357)	(28,786)
Pupil Support Services	233,343				(233,343)	(214,361)
Site, Buildings and Equipment	753,128				(753,128)	(739,140)
Fiscal and Other Fixed Cost Programs	22,252				(22,252)	(20,112)
Food Service	128,041	69,470	58,152		(419)	(2,019)
Community Service	56,739	20,160	23,651		(12,928)	(38,776)
Interest and Fiscal Charges on Long-term Liabilities	357,198				(357,198)	(366,473)
Total	<u>3,348,570</u>	<u>108,897</u>	<u>236,617</u>	<u>-0-</u>	<u>(3,003,056)</u>	<u>(2,749,986)</u>
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes					171,582	276,794
Community Service					14,692	25,605
Debt Service					605,364	638,828
Federal and State Aid Not Restricted to Specific Purposes					1,573,669	1,524,745
Earnings on Investments					286	371
Miscellaneous					95,869	68,247
Total General Revenues					<u>2,461,462</u>	<u>2,534,590</u>
Change in Net Position before Extraordinary Items					(541,594)	(215,396)
<u>Extraordinary Items</u>						
Arbitration Settlement					-0-	(1,225,502)
Change in Net Position					(541,594)	(1,440,898)
Net Position - Beginning					(614,292)	826,606
Net Position - Ending					<u>(1,155,886)</u>	<u>(614,292)</u>

See accompanying notes to the financial statements.

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2014	2013
Assets						
Cash and Investments	674,123	3,050	96,078	454,936	1,228,187	1,323,763
Current Property Taxes Receivable	156,460		8,330	300,585	465,375	421,587
Delinquent Property Taxes Receivable	3,976		643	5,412	10,031	9,416
Accounts Receivable		393			393	1,346
Due From Department of Education	143,983		1,074	1,837	146,894	141,167
Due From Other Minnesota School Districts	7,182				7,182	
Due From Federal Government	2,938				2,938	4,898
Inventory		3,315			3,315	1,742
Prepaid Items	1,558				1,558	4,777
Total Assets	990,220	6,758	106,125	762,770	1,865,873	1,908,696
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts Payable	12,854	38	1,269		14,161	35,843
Interest Payable	5,592				5,592	7,466
Salaries Payable	70,715	3,405	6,579		80,699	80,922
Short Term Indebtedness	355,588				355,588	465,054
Due to Other Governmental Units	214				214	360
Due to Other Minnesota School Districts	1,234,441				1,234,441	1,232,796
Due to Other Funds						
Payroll Deductions	46,107				46,107	44,778
Unearned Revenue-Other			5,340		5,340	9,440
Total Liabilities	1,725,511	3,443	13,188		1,742,142	1,876,659
Deferred Inflows of Resources						
Unearned Revenue-Delinquent Taxes	3,976		643	5,412	10,031	9,416
Property Taxes Levied for Subsequent Years	338,531		17,569	632,824	988,924	778,026
Total Deferred Inflows of Resources	342,507	0	18,212	638,236	998,955	787,442
Fund Balance						
Fund Balance-Nonspendable	1,558	3,315			4,873	6,519
Fund Balance-Restricted	57,769		74,725	124,534	257,028	193,459
Fund Balance-Committed	292,859				292,859	122,440
Fund Balance-Unassigned	(1,429,984)				(1,429,984)	(1,077,823)
Total Fund Balance	(1,077,798)	3,315	74,725	124,534	(875,224)	(755,405)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	990,220	6,758	106,125	762,770	1,865,873	1,908,696

See accompanying notes to the financial statements.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

	<u>2014</u>		<u>2013</u>
Total Governmental Fund Balances	(875,224)		(755,405)
Amounts reported in Governmental Activities in The Statement of Net Assets are Different Because:			
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds			
Cost of Capital Assets	11,466,965		11,464,427
Less: Accumulated Depreciation	<u>(2,789,799)</u>	8,677,166	<u>(2,260,290)</u> 9,204,137
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue.			
		10,031	9,416
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:			
Bonds Payable	(8,675,000)		(8,950,000)
Severance Payable	<u>(292,859)</u>	<u>(8,967,859)</u>	<u>(122,440)</u> (9,072,440)
Net Position of Governmental Activities		<u>(1,155,886)</u>	<u>(614,292)</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2014	2013
<u>Revenues</u>						
Local Property Tax Levies	170,967		14,692	605,364	791,023	938,745
Other Local and County Revenues	80,273	1	42,864	105	123,243	113,914
Revenue from State Sources	1,637,757	5,940	23,651	18,366	1,685,714	1,637,476
Revenue from Federal Sources	72,360	52,212			124,572	136,693
Other	2,376	69,470			71,846	65,546
Total Revenues	1,963,733	127,623	81,207	623,835	2,796,398	2,892,374
<u>Expenditures</u>						
District and School Administration	147,810				147,810	143,893
District Support Services	58,208				58,208	56,783
Regular Instruction	1,075,479				1,075,479	1,012,765
Vocational Instruction	102,816				102,816	115,933
Exceptional Instruction	221,476				221,476	188,628
Community Education and Services			56,739		56,739	70,648
Instructional Support Services	25,357				25,357	28,786
Pupil Support Services	230,085	128,041			358,126	336,111
Site, Buildings and Equipment	225,719				225,719	216,972
Fiscal and Other Fixed Cost Programs	22,252			632,198	654,450	651,585
Total Expenditures	2,109,202	128,041	56,739	632,198	2,926,180	2,822,104
Excess Revenues (Expenditures)	(145,469)	(418)	24,468	(8,363)	(129,782)	70,270
<u>Other Financing Sources (Uses)</u>						
Permanent Transfer	(1,991)	1,991				
Sale of Equipment	9,963				9,963	
Total Other Financing Sources (Uses)	7,972	1,991			9,963	
<u>Extraordinary Items</u>						
Arbitration Settlement						(1,225,502)
Net Change in Fund Balance	(137,497)	1,573	24,468	(8,363)	(119,819)	(1,155,232)
Fund Balance-Beginning	(940,301)	1,742	50,257	132,897	(755,405)	399,827
Fund Balance-Ending	(1,077,798)	3,315	74,725	124,534	(875,224)	(755,405)

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
Net Change in Governmental Fund Balances	(119,819)	(1,155,232)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital Outlay	8,028		4,750	
Depreciation Expense	<u>(534,999)</u>	(526,971)	<u>(534,598)</u>	(529,848)

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Bond Payments	275,000		265,000	
Severance	<u>(170,419)</u>	104,581	<u>(23,300)</u>	241,700

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore deferred in the funds.

615	2,482
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Change in Net Position of Governmental Activities	<u><u>(541,594)</u></u>	<u><u>(1,440,898)</u></u>
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See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse) Than Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<u>Revenues</u>				
Local Property Tax Levies	281,441	281,441	170,967	(110,474)
Other Local and County Revenues	61,956	61,956	80,273	18,317
Revenue from State Sources	1,549,844	1,549,844	1,637,757	87,913
Revenue from Federal Sources	70,143	70,143	72,360	2,217
Other	3,400	3,400	2,376	(1,024)
Total Revenues	1,966,784	1,966,784	1,963,733	(3,051)
<u>Expenditures</u>				
District and School Administration	144,898	144,898	147,810	2,912
District Support Services	52,071	52,071	58,208	6,137
Regular Instruction	1,054,304	1,054,304	1,075,479	21,175
Vocational Instruction	92,765	92,765	102,816	10,051
Exceptional Instruction	225,605	225,605	221,476	(4,129)
Instructional Support Services	25,844	25,844	25,357	(487)
Pupil Support Services	225,736	225,736	230,085	4,349
Site, Building and Equipment	230,465	230,465	225,719	(4,746)
Fiscal and Other Fixed Cost Programs	23,435	23,435	22,252	(1,183)
Total Expenditures	2,075,123	2,075,123	2,109,202	34,079
Excess Revenues (Expenditures)	(108,339)	(108,339)	(145,469)	(37,130)
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer			(1,991)	(1,991)
Sale of Equipment	5,000	5,000	9,963	4,963
Total Other Financing Sources (Uses)	5,000	5,000	7,972	2,972
Net Change in Fund Balance	(103,339)	(103,339)	(137,497)	(34,158)
Fund Balance-Beginning			(940,301)	
Fund Balance-Ending			(1,077,798)	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Other Local and County Revenues	20	20	1	(19)
Revenue from State Sources	7,000	7,000	5,940	(1,060)
Revenue from Federal Sources	48,800	48,800	52,212	3,412
Other	70,891	70,891	69,470	(1,421)
Total Revenues	126,711	126,711	127,623	912
<u>Expenditures</u>				
Pupil Support Services	134,572	134,572	128,041	6,531
Total Expenditures	134,572	134,572	128,041	6,531
Excess Revenues (Expenditures)	(7,861)	(7,861)	(418)	7,443
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer			1,991	1,991
Total Other Financing Sources (Uses)	-0-	-0-	1,991	1,991
Net Change in Fund Balance	(7,861)	(7,861)	1,573	9,434
Fund Balance-Beginning			1,742	
Fund Balance-Ending			3,315	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	32,641	32,641	14,692	(17,949)
Other Local and County Revenues	22,525	22,525	42,864	20,339
Revenue from State Sources	11,988	11,988	23,651	11,663
Total Revenues	67,154	67,154	81,207	14,053
<u>Expenditures</u>				
Community Education and Services	54,464	54,464	56,739	(2,275)
Total Expenditures	54,464	54,464	56,739	(2,275)
Net Change in Fund Balance	12,690	12,690	24,468	11,778
Fund Balance-Beginning			50,257	
Fund Balance-Ending			74,725	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Better/(Worse)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	607,266	607,266	605,364	(1,902)
Other Local and County Revenues	100	100	105	5
Revenue from State Sources	18,366	18,366	18,366	
Total Revenues	<u>625,732</u>	<u>625,732</u>	<u>623,835</u>	<u>(1,897)</u>
<u>Expenditures</u>				
Fiscal and Other Fixed Cost Programs	632,198	632,198	632,198	0
Total Expenditures	<u>632,198</u>	<u>632,198</u>	<u>632,198</u>	<u>0</u>
Net Change in Fund Balance	<u>(6,466)</u>	<u>(6,466)</u>	(8,363)	<u>(1,897)</u>
Fund Balance-Beginning			<u>132,897</u>	
Fund Balance-Ending			<u>124,534</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
EXPENDABLE TRUST FUND
JUNE 30, 2014

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash and Investments	<u>4,267</u>	<u>4,261</u>
Total Assets	<u>4,267</u>	<u>4,261</u>
 <u>Net Position</u>		
Reserved for Scholarships	<u>4,267</u>	<u>4,261</u>
Total Net Position	<u>4,267</u>	<u>4,261</u>

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2014

<u>Additions</u>	<u>2014</u>	<u>2013</u>
Gifts		
Interest Income	<u>6</u>	<u>5</u>
Total Additions	<u>6</u>	<u>5</u>
<u>Deductions</u>		
Scholarships		<u>900</u>
Change in Net Position	<u>6</u>	<u>(895)</u>
Net Position - Beginning of Year	<u>4,261</u>	<u>5,156</u>
Net Position - End of Year	<u><u>4,267</u></u>	<u><u>4,261</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Independent School District No. 403 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 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside 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 not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 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 assets 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 inter fund activity has been removed from the District-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: expendable 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.

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

D. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary 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 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 as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measureable" 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (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 measureable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

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

Fiduciary funds are accounted for on a flow economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period for which they are incurred and become measurable.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental Funds

General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Fiduciary Funds

Agency Fund

The Agency Fund is used to account for the assets belonging to student organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

E. Budgets and Budgetary Accounting

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

F. Cash and Temporary Investments - continued

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

I. Prepaid Items

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

J. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2014, and will be recognized as revenue during the fiscal year ending June 30, 2015. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. 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 district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount 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 buildings and improvements, and 5 to 20 years for equipment and vehicles. Land is not depreciated.

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

L. Long-Term Obligations

In the district-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. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

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 or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently the District has no items that qualify for reporting in this category.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

M. Deferred Outflows/Inflows of Resources- continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

N. Fund Equity

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The following are the five fund balance categories used by the District:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 Summary of Significant Accounting Policies - continued

N. Fund Equity- continued

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The school district will strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the restricted, committed, assigned and unassigned fund balances in the General Fund, Food Service Fund and the Community Service Fund. Total operating expenditures will include the expenditures in the funds noted above.

If resources from more than one fund balance classification could be spent, the school district established the following order for resource use: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

O. Net Position

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

P. Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

R. Subsequent Events

Subsequent events have been evaluated through December 2, 2014, which is the date the financial statements were available to be issued.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 Deposits and Investments

A. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, 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 standby 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

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, none of the District's bank balance of \$519,457 was exposed to custodial credit risk.

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 Cash and Investments - continued

B. Investments - continued

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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 counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

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

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Investment Pools					
Minnesota School District Liquid Asset Fund Plus Liquid Class	AAAm	S & P	20%	N/A	110,701
Minnesota School District Liquid Asset Fund Plus MAX Class	AAAm	S & P	80%	N/A	620,723
Total Investments					731,424
Nonnegotiable Certificates of Deposit					3,410
Deposits					497,620
Total Cash and Investments					1,232,454

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 Cash 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 position	1,228,187
Cash and temporary investments – statement of fiduciary net position	<u>4,267</u>
	<u>1,232,454</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.

The Minnesota School District Liquid Asset Fund issues a publicly available financial report. That report may be obtained on the Internet at www.msdlaf.org.

Note 3 Due From Department of Education

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2014</u>	<u>2013</u>
General Education Aid	136,782	124,507
Other State Credits	2,508	4,123
Special Education	<u>4,693</u>	<u>8,955</u>
Total General Fund	143,983	137,585
 <u>Special Revenue Funds</u>		
<u>Community Service Fund</u>		
Early Childhood and Family Education	(25)	476
Other State Credits	<u>1,099</u>	<u>437</u>
Total Community Services	<u>1,074</u>	<u>913</u>
Total Special Revenue Funds	<u>1,074</u>	<u>913</u>
 <u>Debt Service Fund</u>		
Other State Credits	<u>1,837</u>	<u>2,669</u>
Total All Funds	<u>146,894</u>	<u>141,167</u>

Note 4 Due From Federal Government Through the Department of Education

Amounts due from the federal government through the Department of Education are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2013</u>	<u>2013</u>
Federal Program - Title I	-0-	4,898
- Title II	<u>2,938</u>	<u>-0-</u>
Total General Fund	<u>2,938</u>	<u>4,898</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5 Capital Assets

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

	<u>Balance</u> <u>07/01/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/14</u>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	10,093,594			10,093,594
Buildings	1,030,999	4,700		1,035,699
Equipment	309,548	3,328	(5,490)	307,386
Vehicles	20,592			20,592
Total capital assets depreciated	11,454,733	8,028	(5,490)	11,457,271
Less accumulated depreciation for				
Land Improvements	(1,261,699)	(504,681)		(1,766,380)
Buildings	(854,882)	(7,489)		(862,371)
Equipment	(139,848)	(20,255)	5,490	(154,613)
Vehicles	(3,861)	(2,574)		(6,435)
Total Accumulated Depreciation	(2,260,290)	(534,999)	5,490	(2,789,799)
Total capital assets depreciated – net	9,194,443	(526,971)		8,667,472
Net Capital Assets	9,204,137	(526,971)	-0-	8,677,166

Depreciation expense of \$534,999 for the year ended June 30, 2014 was charged to the following governmental functions:

Regular Instruction	4,171
Vocational Instruction	160
Pupil Support Services	3,258
Sites, Buildings, and Equipment	527,410
Total	<u>534,999</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 Due To Other Minnesota School Districts

The amounts due to other Minnesota School Districts are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2014</u>	<u>2013</u>
Independent School District No. 347		
Wiimar – Reimbursements		3,108
Independent School District No. 414		
Minneota – Reimbursements		57
Independent School District No. 402		
Hendricks – Arbitration Settlement	1,225,502	1,225,502
Independent School District No. 099		
SW/WC Service Coop – Reimbursements	8,939	4,129
Total General Fund	<u>1,234,441</u>	<u>1,232,796</u>
Total All Funds	<u>1,234,441</u>	<u>1,232,796</u>

Note 7 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2014</u>	<u>2013</u>
Lincoln County Treasurer		176
Minnesota Department of Revenue		
Sales Tax	214	184
Total General Fund	<u>214</u>	<u>360</u>

Note 8 Certificates of Indebtedness

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2014</u>
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2013A Maturity September 16, 2014, Interest rate 2%	-0-	355,588	-0-	355,588
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2012A Maturity September 10, 2013, Interest rate 2%	465,054	- 0-	465,054	- 0-
Total	<u>465,054</u>	<u>355,588</u>	<u>465,054</u>	<u>355,588</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9 Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2014 are comprised of the following items:

	Balance
	<u>June 30, 2014</u>
General Obligation School Building Bonds, Series 2008A, due in annual installments of \$235,000 to \$635,000 through February 1, 2034, interest at 3.00% to 4.15%.	<u>8,675,000</u>
Total Bonds Payable	<u>8,675,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2014, including interest payments, are listed below.

Year Ended

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	285,000	347,123	632,123
2016	300,000	337,148	637,148
2017	310,000	326,648	636,648
2018	320,000	315,798	635,798
2019	335,000	302,998	637,998
2020-2024	1,895,000	1,302,388	3,197,388
2025-2029	2,325,000	890,988	3,215,988
2030-2034	<u>2,905,000</u>	<u>372,198</u>	<u>3,277,198</u>
Total	<u>8,675,000</u>	<u>4,195,289</u>	<u>12,870,289</u>

B. Changes in Long-Term Liabilities

The following is a schedule of the changes in Long-Term Liabilities:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>7/01/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/14</u>	<u>One Year</u>
Bonds Payable	8,950,000		275,000	8,675,000	285,000
Severance Pay	<u>122,440</u>	<u>243,913</u>	<u>73,494</u>	<u>292,859</u>	<u>166,902</u>
Total	<u>9,072,440</u>	<u>243,913</u>	<u>348,494</u>	<u>8,967,859</u>	<u>451,902</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2014:

General Fund

Prepaid Expenses	1,558
Total General Fund	<u>1,558</u>

Special Revenue Funds

Food Service

Inventory	3,315
Total Special Revenue Funds	<u>3,315</u>
Total All Funds	<u><u>4,873</u></u>

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2014:

General Fund

Deferred Maintenance	25,598
Health & Safety	(18,740)
Operating Capital	46,483
Gifted & Talented	3,491
Safe Schools	937
Total General Fund	<u>57,769</u>

Special Revenue Funds

Community Services

Community Education	8,234
Early Childhood and Family Education	44,423
School Readiness	20,651
Restricted	1,417
Total Special Revenue Funds	<u>74,725</u>

Debt Service

Restricted	124,534
Total Debt Service Fund	<u>124,534</u>
Total All Funds	<u><u>257,028</u></u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10 Fund Balances – continued

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has the following committed fund balances as of June 30, 2014.

General Fund

Separation	<u>292,859</u>
Total General Fund	<u>292,859</u>
Total All Funds	<u>292,859</u>

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2014.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2014:

<u>General Fund</u>	<u>(1,429,984)</u>
Total All Funds	<u><u>(1,429,984)</u></u>

Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 11 Pension Plan

A. Teacher Retirement Association

1. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Assoc. TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 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:

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 11 Pension Plan - continued

A. Teacher Retirement Association - continued

1. Plan Description - continued

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).

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.5 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.

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

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the 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.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 11 Pension Plan - continued

A. Teacher Retirement Association - continued

2. Plan Description - continued

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-6449
(800) 657-3853

3. 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 as employee contributions during fiscal year 2013. The TRA 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 is as follows:

Fiscal Year End	Covered Payroll
June 30, 2013	\$3.92 billion
June 30, 2012	\$3.87 billion
June 30, 2011	\$3.84 billion
June 30, 2010	\$3.79 billion

The District's contributions for the year ending June 30, 2014, 2013 and 2012 were \$53,402, \$52,192, and \$54,259, 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.

B. Public Employees Retirement Association (PERA)

1. Plan Description

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 11 Pension Plan - continued

B. Public Employees Retirement Association (PERA) - continued

1. Plan Description - continued

PERF 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 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 PERF 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 11 Pension Plan - continued

B. Public Employees Retirement Association (PERA) - continued

2. Funding Policy

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

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

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.25% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013, and 2012, were \$13,349, \$13,248, and \$15,850 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Other Postemployment Benefits (OPEB)

The school has no liability for postemployment benefits other than pension benefits.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 12 Vacation and Sick Leave

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year round employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

Note 13 Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 14 **Subsequent Events**

Subsequent events have been evaluated through December 2, 2014, which is the date the financial statements were available to be issued. In June of 2014 the district received notice that their appeal of an arbitrators ruling of December 13, 2013 which required them to pay damages to Independent School District No. 402, Hendricks, MN of \$1,225,502. In August of 2014 the district received bonding to provide the funds to satisfy this obligation and will levy the taxpayers of the district over a period of three years. The district has also entered into tuition agreement with area schools for grades 7-12. This arrangement will take effect at the start of the fiscal year ended June 30, 2015.

Note 15 **Extraordinary Items**

On August 24, 2013 pursuant to an arbitrator's decision regarding a breach of the Inter-District Cooperation Agreement between Independent School District No. 403 (Ivanhoe) and Independent School District No. 402 (Hendricks) the arbitrator found a breach of the Inter-District Cooperation Agreement by Independent School District No. 403 (Ivanhoe). The damages awarded by the arbitrator on the matter dated December 13, 2013 amounted to \$1,225,502. The district appealed this decision and on June 5, 2014 the district's appeal was denied and the original award was upheld. As stated in Note 14 the district has obtained bond financing to satisfy this decision and in August of 2014 the obligation was paid in full. The amount payable of \$1,225,502 has been set up as a payable at June 30, 2014 and 2013 and is included in the total in Due to Other Minnesota School Districts.

Note 16 **Deficit Fund Balance**

The following fund had a deficit fund balance at June 30, 2014:

General Fund	1,077,798
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This deficit was created in part due to the damage award of the Arbitrator's decision described in Note 15. It is anticipated that the district will recover the award through a tax levy.

Note 17 **Statutory Operating Debt**

Statutory operating debt (SOD) exists when the net negative applicable general fund balance, calculated in accordance with uniform financial accounting and reporting standards for Minnesota school districts, is more than 2.5% of the year's expenditure amount. At June 30, 2014, the District's applicable general fund balance deficit was \$1,135,569, while 2.5% of the year's expenditures, as defined by state statutes, were \$47,203. Accordingly, the District is in SOD at June 30, 2014. The Minnesota Department of Education requires districts in SOD to submit a special operating plan to the commissioner of the Minnesota Department of Education for approval by January 31 of the following year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 18 Transfers

The following is a schedule of the transfers for the year ended June 30, 2014:

	<u>Transfer In</u>	<u>Transfer Out</u>
General		1,991
Food Service	1,991	

These transfers were made to eliminate deficit fund balances in Food Service.

Note 19 Changes in Accounting Principles

During fiscal year 2014, the District adopted new accounting guidance by implementing the provisions of GASB Statement No. 65. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.M. in the notes to the financial statements for additional information regarding the District's deferred inflows/outflows of resources. Restatements of June 30, 2014, net position or fund balance were not required as a result of adopting this change in accounting principle.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2014

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash and Investments	674,123	786,044
Current Property Taxes Receivable	156,460	119,855
Delinquent Property Taxes Receivable	3,976	5,380
Accounts Receivable		150
Prepays	1,558	4,777
Due From Department of Education	143,983	137,585
Due From Other Minnesota School Districts	7,182	
Due From Federal Government	2,938	4,898
Total Assets	990,220	1,058,689
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	70,715	67,069
Accounts Payable	12,854	35,728
Short Term Indebtedness	355,588	465,054
Interest Payable	5,592	7,466
Due to Other Governmental Units	214	184
Due to Other Minnesota School Districts	1,234,441	1,232,796
Payroll Deductions	46,107	44,778
Total Liabilities	1,725,511	1,853,075
<u>Deferred Inflows of Resources</u>		
Unearned Revenue-Delinquent Taxes	3,976	5,380
Property Taxes Levied for Subsequent Years	338,531	140,535
Total Deferred Inflows of Resources	342,507	145,915
<u>Fund Equity</u>		
Fund Balance-Nonspendable	1,558	4,777
Fund Balance-Restricted	57,769	10,305
Fund Balance-Committed	292,859	122,440
Fund Balance-Unassigned	(1,429,984)	(1,077,823)
Total Fund Equity	(1,077,798)	(940,301)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	990,220	1,058,689

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			
	2014			2013
			Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	281,441	286,655	5,214	268,495
Local Property Tax Shift		(115,688)	(115,688)	5,817
	<u>281,441</u>	<u>170,967</u>	<u>(110,474)</u>	<u>274,312</u>
 <u>Other Local and County Revenues</u>				
County Apportionment	6,100	7,907	1,807	6,071
Admissions	15,404	19,267	3,863	22,283
Gifts	9,350	25,578	16,228	8,278
Interest Income	300	156	(144)	276
Rent of Facilities	2,500	2,476	(24)	2,476
Other Revenues	28,302	24,889	(3,413)	48,641
Total Other Local and County Revenues	<u>61,956</u>	<u>80,273</u>	<u>18,317</u>	<u>88,025</u>
 <u>Revenue From State Sources</u>				
Disparity Reduction Aid	880	880	(4,497)	824
Endowment Fund Apportionment	5,377	5,569	4,689	6,178
General Education Aid	1,441,405	1,467,081	25,676	1,515,425
Market Value Credit	2,283	2,283		2,280
Other State Aids	17,212	17,822	610	13,637
Property Tax Shift Offset		115,688	115,688	(5,817)
Special Education	82,687	28,434	(54,253)	72,396
Total Revenue From State Sources	<u>1,549,844</u>	<u>1,637,757</u>	<u>87,913</u>	<u>1,604,923</u>
 <u>Revenue From Federal Sources</u>				
Federal Aid Programs	70,143	72,360	2,217	83,211
 <u>Sales and Other Conversion of Assets</u>				
Sale of Materials	3,400	2,376	(1,024)	2,781
Total Sales and Other Conversion of Assets	<u>3,400</u>	<u>2,376</u>	<u>(1,024)</u>	<u>2,781</u>
Total Revenues	<u>1,966,784</u>	<u>1,963,733</u>	<u>(3,051)</u>	<u>2,053,252</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30		Over/(Under)	2,013
	2014			
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
Dues and Memberships	4,915	4,675	(240)	5,371
Fixed Charges and Employee Benefits	23,193	23,608	415	23,970
Professional Services	24,800	13,401	(11,399)	8,410
Salaries	89,690	104,531	14,841	103,473
Supplies	500	415	(85)	846
Travel and Transportation	1,800	1,180	(620)	1,823
Total District and School Administration	144,898	147,810	2,912	143,893
<u>District Support</u>				
Dues and Memberships	6,200	6,845	645	4,032
Equipment Leased	780	759	(21)	854
Principal	4,925	4,925		10,981
Fixed Charges and Employee Benefits	1,848	1,857	9	2,953
Professional Services	32,275	36,091	3,816	32,279
Salaries	2,371	2,371		3,902
Supplies	3,546	3,485	(61)	1,782
Travel and Transportation	126	1,875	1,749	
Total District Support Services	52,071	58,208	6,137	56,783
<u>Regular Instruction</u>				
<u>Elementary School</u>				
Equipment	4,082	3,921	(161)	2,556
Fixed Charges and Employee Benefits	89,445	69,688	(19,757)	85,763
Professional Services	7,500	8,895	1,395	5,281
Salaries	332,398	327,814	(4,584)	281,724
Supplies	10,700	33,897	23,197	15,572
Travel and Transportation	800	1,019	219	2,383
Total Elementary	444,925	445,234	309	393,279

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			
	2014		2013	
	Budget	Actual	Over/(Under)	Actual
<u>Expenditures - continued</u>				
<u>Regular Instruction - continued</u>				
<u>Secondary School</u>				
Dues and Memberships	2,477	2,281	(196)	2,139
Equipment	14,700	12,381	(2,319)	11,074
Fixed Charges and Employee Benefits	106,665	108,452	1,787	126,716
Instructional Supplies	33,459	32,754	(705)	13,305
Payment to Other Agency's	1,895	4,736	2,841	1,072
Professional Services	25,800	30,424	4,624	31,975
Repairs and Maintenance	1,950	730	(1,220)	4,012
Salaries	317,048	316,430	(618)	309,697
Supplies	10,347	7,207	(3,140)	11,209
Travel and Transportation	46,488	66,417	19,929	54,957
Tuition to Other Minnesota School Districts	48,550	48,433	(117)	53,330
Total Secondary	609,379	630,245	20,866	619,486
Total Regular Instruction	1,054,304	1,075,479	21,175	1,012,765
<u>Vocational Instruction</u>				
Professional Services		2,590	2,590	
Fixed Charges and Employee Benefits	16,888	17,068	180	29,737
Instructional Supplies	12,960	16,231	3,271	2,818
Repair and Maintenance	220	209	(11)	855
Salaries	62,566	66,587	4,021	82,523
Travel and Transportation	131	131		
Total Vocational Instruction	92,765	102,816	10,051	115,933
<u>Exceptional Instruction</u>				
Fixed Charges and Employee Benefits	27,446	27,155	(291)	30,724
Instructional Supplies	2,498	1,633	(865)	1,409
Professional Services				799
Salaries	154,131	152,512	(1,619)	112,987
Travel and Transportation	7,019	6,743	(276)	2,654
Tuition to Other Minnesota School Districts	33,911	33,433	(478)	40,055
Tuition to Out of State School Districts	600		(600)	
Total Exceptional Instruction	225,605	221,476	(4,129)	188,628
<u>Instructional Support Services</u>				
Fixed Charges and Employee Benefits	2,044	1,784	(260)	1,465
Instructional Supplies	100		(100)	332
Professional Services	16,200	17,387	1,187	17,970
Salaries	6,500	5,348	(1,152)	6,050
Supplies	1,000	838	(162)	1,016
Travel and Transportation				1,953
Total Instructional Support	25,844	25,357	(487)	28,786

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			
	2014		2013	
	Budget	Actual	Over/(Under)	Actual
<u>Expenditures - continued</u>				
<u>Pupil Support</u>				
Fixed Charges and Employee Benefits	11,444	12,457	1,013	6,450
Fuel	43,000	39,111	(3,889)	41,904
Insurance	2,615	2,615		2,187
Professional Services	7,750	7,950	200	8,305
Pupil Transportation	152,650	182,589	29,939	146,865
Salaries	26,227	25,203	(1,024)	27,115
Supplies	300	565	265	151
Transportation Chargebacks	(65,000)	(79,389)	(14,389)	(77,154)
Travel and Transportation	46,750	38,984	(7,766)	55,176
Total Pupil Support	225,736	230,085	4,349	210,999
<u>Site, Building and Equipment</u>				
Building Improvements	3,000		(3,000)	1,544
Equipment	12,328	12,328		9,693
Fixed Charges and Employee Benefits	20,055	18,804	(1,251)	19,240
Fuel	2,300	2,676	376	2,299
Other	30	45	15	40
Professional Services	18,600	15,034	(3,566)	17,756
Repair and Maintenance Service	25,175	22,588	(2,587)	15,989
Salaries	50,952	42,582	(8,370)	48,882
Supplies	10,550	12,893	2,343	8,553
Travel and Transportation	75		(75)	28
Utilities	87,400	98,769	11,369	92,948
Total Site, Building and Equipment	230,465	225,719	(4,746)	216,972
<u>Fixed Cost Programs</u>				
Interest	5,000	3,819	(1,181)	4,179
Property Insurance	18,435	18,433	(2)	15,933
Total Fixed Cost Programs	23,435	22,252	(1,183)	20,112
Total Expenditures	2,075,123	2,109,202	34,079	1,994,871
Excess Revenues (Expenditures)	(108,339)	(145,469)	(37,130)	58,381
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer		(1,991)	(1,991)	(81,460)
Sale of Equipment	5,000	9,963	4,963	
Total Other Financing Sources (Uses)	5,000	7,972	2,972	(81,460)
<u>Extraordinary Items</u>				
Arbitration Settlement				(1,225,502)
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	(103,339)	(137,497)	(34,158)	(1,248,581)
Fund Balance-July 1		(940,301)		308,280
Fund Balance-June 30		(1,077,798)		(940,301)

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014

			Total (Memo Only)	
	Food Service	Community Service	2014	2013
<u>Assets</u>				
Cash and Investments	3,050	96,078	99,128	72,865
Current Property Taxes Receivable		8,330	8,330	10,726
Delinquent Property Taxes Receivable		643	643	527
Accounts Receivable	393		393	1,196
Due from Department of Education		1,074	1,074	913
Inventory	3,315		3,315	1,742
Total Assets	<u>6,758</u>	<u>106,125</u>	<u>112,883</u>	<u>87,969</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	38	1,269	1,307	291
Salaries Payable	3,405	6,579	9,984	13,853
Due to Other Funds				
Unearned Revenue - Other		5,340	5,340	9,440
Total Liabilities	<u>3,443</u>	<u>13,188</u>	<u>16,631</u>	<u>23,584</u>
<u>Deferred Inflows of Resources</u>				
Unearned Revenue - Delinquent Taxes		643	643	527
Property Taxes Levied for Subsequent Years		17,569	17,569	11,859
Total Deferred Inflows of Resources	<u>-0-</u>	<u>18,212</u>	<u>18,212</u>	<u>12,386</u>
<u>Fund Equity</u>				
Fund Balance-Restricted		74,725	74,725	50,257
Fund Balance-Nonspendable	3,315		3,315	1,742
Total Fund Equity	<u>3,315</u>	<u>74,725</u>	<u>78,040</u>	<u>51,999</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>6,758</u>	<u>106,125</u>	<u>112,883</u>	<u>87,969</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Food</u>	<u>Community</u>	<u>Total</u>	
	<u>Service</u>	<u>Service</u>	<u>(Memo Only)</u>	
<u>Revenues</u>			<u>2014</u>	<u>2013</u>
Local Property Tax Levy		14,692	14,692	25,605
Other Local and County Revenues	1	42,864	42,865	25,796
Revenue from State Sources	5,940		5,940	6,846
Revenue from Federal Sources	52,212	23,651	75,863	59,560
Other	69,470		69,470	62,765
Total Revenues	<u>127,623</u>	<u>81,207</u>	<u>208,830</u>	<u>180,572</u>
 <u>Expenditures</u>				
Community Education and Services		56,739	56,739	70,648
Pupil Support Services	128,041		128,041	125,112
Total Expenditures	<u>128,041</u>	<u>56,739</u>	<u>184,780</u>	<u>195,760</u>
 Excess Revenues (Expenditures)	(418)	24,468	24,050	(15,188)
 <u>Other Financing Sources</u>				
Permanent Transfer	1,991	0	1,991	81,460
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	<u>1,573</u>	<u>24,468</u>	<u>26,041</u>	<u>66,272</u>
 Excess Revenues (Expenditures)	1,573	24,468	26,041	66,272
Fund Balance-July 1	<u>1,742</u>	<u>50,257</u>	<u>51,999</u>	<u>(14,273)</u>
Fund Balance-June 30	<u><u>3,315</u></u>	<u><u>74,725</u></u>	<u><u>78,040</u></u>	<u><u>51,999</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			
	2014		Over/(Under)	2013
	Budget	Actual		Actual
<u>Revenues</u>				
<u>Other Local and County Revenues</u>				
Interest Income	20	1	(19)	2
Total Local and County Revenues	20	1	(19)	2
<u>Revenue From State Sources</u>				
Lunch Reimbursement	3,600	3,204	(396)	3,431
Other State Aid	3,400	2,736	(664)	3,415
Total Revenue from State Sources	7,000	5,940	(1,060)	6,846
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	10,000	9,651	(349)	9,741
Commodities	4,700	8,838	4,138	5,326
Lunch Reimbursement	34,100	33,723	(377)	38,415
Total Revenue From Federal Sources	48,800	52,212	3,412	53,482
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	70,891	69,470	(1,421)	62,765
Total Revenues	126,711	127,623	912	123,095
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	4,350	8,773	(4,423)	5,326
Fixed Charges and Employee Benefits	19,304	13,414	5,890	20,978
Food	48,000	41,973	6,027	43,877
Milk	12,540	11,646	894	11,357
Other	725	847	(122)	830
Repairs and Maintenance	1,950	725	1,225	349
Salaries	46,103	49,004	(2,901)	40,694
Supplies	1,500	1,631	(131)	1,634
Travel	100	28	72	67
Total Expenditures	134,572	128,041	6,531	125,112
Excess Revenues (Expenditures)	(7,861)	(418)	7,443	(2,017)
<u>Other Financing Sources</u>				
Permanent Transfer		1,991	1,991	2,691
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	(7,861)	1,573	9,434	674
Fund Balance-July 1		1,742		1,068
Fund Balance-June 30		3,315		1,742

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			2013
	2014		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	32,641	25,905	(6,736)	23,298
Property Tax Shift		(11,213)	(11,213)	2,307
Total Local Property Tax Levies	32,641	14,692	(17,949)	25,605
<u>Other Local and County Revenues</u>				
Fees from Patrons	22,500	20,160	(2,340)	25,794
Grant		22,680	22,680	
Interest Income	25	24	(1)	
Total Other Local and County Revenues	22,525	42,864	20,339	25,794
<u>Revenue From State Sources</u>				
Disparity Aid	189	189		145
Homestead/Agriculture Credit	489	489		401
Other State Aids	11,310	11,760	450	7,839
Property Tax Shift		11,213	11,213	(2,307)
Total Revenue From State Sources	11,988	23,651	11,663	6,078
Total Revenues	67,154	81,207	14,053	57,477
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment	2,128	2,029	99	
Fixed Charges and Employee Benefits	5,766	5,628	138	15,252
Instructional Supplies	1,400	1,719	(319)	358
Other	1,894	2,829	(935)	1,185
Rent	2,500	2,476	24	2,476
Salaries	39,901	40,362	(461)	49,658
Supplies	775	1,546	(771)	1,580
Travel	100	150	(50)	139
Total Expenditures	54,464	56,739	(2,275)	70,648
Excess Revenues (Expenditures)	12,690	24,468	11,778	(13,171)
<u>Other Financing Sources</u>				
Permanent Transfer				78,769
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	12,690	24,468	11,778	65,598
Fund Balance-July 1		50,257		(15,341)
Fund Balance-June 30		74,725		50,257

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	Year Ended June 30			
	2014			2013
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	607,266	605,364	(1,902)	638,828
<u>Other Local and County Revenues</u>				
Interest Income	100	105	5	93
Total Other Local and County Revenues	100	105	5	93
<u>Revenue From State Sources</u>				
Disparity Aid	5,112	5,112		5,212
Market Value Credit	13,254	13,254		14,417
Total Revenue From State Sources	18,366	18,366		19,629
Total Revenues	625,732	623,835	(1,897)	658,550
<u>Expenditures</u>				
Bond Interest	356,748	356,748		366,023
Bond Principal	275,000	275,000		265,000
Other Bond Expenses	450	450		450
Total Expenditures	632,198	632,198		631,473
Excess Revenues (Expenditures)	(6,466)	(8,363)	(1,897)	27,077
Fund Balance-July 1		132,897		105,820
Fund Balance-June 30		124,534		132,897

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2014

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	1,963,733	1,963,732	1
Total Expenditures	2,109,202	2,109,202	0
Non Spendable:			
4.60 Non Spendable	1,558	1,558	-0-
Restricted:			
4.03 Staff Development	-0-	-0-	-0-
4.05 Deferred Maintenance	25,598	25,599	(1)
4.06 Health and Safety	(18,740)	(18,740)	-0-
4.24 Operating Capital	46,483	46,483	-0-
4.38 Gifted & Talented	3,491	3,491	-0-
4.41 Basic Skills	-0-	-0-	-0-
4.49 Safe Schools	937	937	-0-
Committed:			
4.18 Designated - Severance	292,859	292,859	-0-
Unassigned:			
4.22 Unassigned	(1,429,984)	(1,429,985)	1
<u>02 FOOD SERVICE</u>			
Total Revenues	127,623	127,622	1
Total Expenditures	128,041	128,040	1
Non Spendable:			
4.60 Non Spendable	3,315	3,315	-0-
Unreserved:			
4.63 Unassigned	-0-	-0-	-0-
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	81,207	81,207	-0-
Total Expenditures	56,739	56,739	0
Restricted:			
4.31 Community Education	8,234	8,234	-0-
4.32 Early Child & Family Education	44,423	44,423	-0-
4.44 School Readiness	20,651	20,651	-0-
4.64 Restricted Fund Balance	1,417	1,416	1
Unassigned:			
4.63 Unassigned	-0-	-0-	-0-
<u>07 DEBT SERVICE</u>			
Total Revenues	623,835	623,834	1
Total Expenditures	632,198	632,198	-0-
Restricted:			
4.64 Restricted	124,534	124,535	(1)
<u>07 TRUST</u>			
Total Revenues	6	6	-0-
Total Expenditures	-0-	-0-	-0-
Unassigned:			
4.22 Unassigned	4,267	4,267	-0-

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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 Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Independent School District No. 403's basic financial statements and have issued our report thereon dated December 2, 2014.

Internal Control Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 403's internal control over financial reporting to determine the auditing 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 Independent School District No. 403's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 403'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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be material weaknesses 2014-I and 2014-II.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 403's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the Independent School District No. 403 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 403's noncompliance with the above referenced provisions.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Independent School District No. 403's Response to Findings

The Independent School District No. 403's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 403's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

December 2, 2014

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INDEPENDENT AUDITOR'S REPORT ON THE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
OF THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 error or fraud.

Auditor's Responsibility

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

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

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

Basis for Qualified Opinion

The district has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the accounts recorded.

Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the cash transactions of the district’s student activity account for the year ended June 30, 2014, and the cash balance at that date.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated December 2, 2014, on our consideration of the District’s compliance with the provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the district has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

December 2, 2014

STUDENT ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

<u>Organization</u>	<u>07-01-13</u>	<u>2013-14</u>	<u>2013-14</u>	<u>06-30-14</u>
	<u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
Jr. Class	9,035	7,390	13,362	3,063
"L" Club Golf	448	1,065	1,513	
"L" Club	350	56	342	64
"L" Club VB	1,101		1,101	
"L" Club GBB	628	2,350	2,978	
"L" Club Baseball	225			225
"L" Club BBB	922			922
"L" Club FB	144			144
General	3,196	2,201	4,346	1,051
Music	4,858	7,565	7,051	5,372
Art Club	4,976	4,263	7,024	2,215
SADD	596	154		750
Spanish	2,666			2,666
FFA	17,016	19,516	26,923	9,609
Student Enrichment		9,061	5,965	3,096
NHS		310	290	20
Yearbook	2,752	765	595	2,922
Jr Rebels	59			59
Total	<u>48,972</u>	<u>54,696</u>	<u>71,490</u>	<u>32,178</u>

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS
APPLICABLE TO THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Cash Receipts and Disbursements of the student activity accounts of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2014, and have issued our report thereon dated December 2, 2014.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the district failed to comply with the provisions of the *Manual for Student Activity Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the district's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing 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.

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

December 2, 2014

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

I. Financial Statement Audit-Internal Controls

Previously Reported Items Not Resolved

2014-I Lack of Segregation of Duties

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

Official responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned completion date for CAP:

December 31, 2014

Plan to monitor completion of CAP:

The Superintendent and Board of Education will monitor the internal control system.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

I. Financial Statement Audit-Internal Controls-continued
Previously Reported Items Not Resolved-continued
2014-II GAAP Financial Statements

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 31, 2014

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.

