

INDEPENDENT SCHOOL DISTRICT NO. 832
MAHTOMEDI, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2014

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 832

School Board and Administration
as of June 30, 2014

SCHOOL BOARD

	<u>Position</u>
Cathy Dalton	Director
Mary Jo Deters	Clerk/Vice Chair
Robert Donohoe	Chairperson
Kevin Donovan	Director
Lucy Payne	Director
Judith Schwartz	Director

ADMINISTRATION

Mark Larson	Superintendent of Schools
Rochel Manders	Director of Business Services

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 832, Mahtomedi, Minnesota (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

(continued)

Prior Year Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 11, 2013. In our opinion, the partial 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

Minneapolis, Minnesota
INSERT DATE

INDEPENDENT SCHOOL DISTRICT NO. 832

Management's Discussion and Analysis Fiscal Year Ended June 30, 2014

This section of Independent School District No. 832, Mahtomedi, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net position of governmental activities increased by \$93,084, resulting in total net position of \$17,860,313 as of June 30, 2014.
- At June 30, 2014, the District's governmental funds reported a combined ending fund balance of \$8,335,971, a decrease of \$2,256,941 from the prior year. Most of this change was in the District's Capital Projects – Building Construction Fund due to the construction of a new elementary school.
- The District's General Fund unassigned fund balance decreased from \$3,678,128 to \$3,433,899 during fiscal year 2014. This balance is in compliance with the School Board's fund balance policy, which requires a minimum unassigned fund balance of at least 8 percent of expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual statements consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information, which includes combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

Government-Wide Financial Statements

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

The two government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

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

Proprietary Funds – The District maintains one type of proprietary fund. The Internal Service Fund is used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its employee health self-insurance activities. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1 Summary Statement of Net Position as of June 30, 2014 and 2013		
	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 23,645,493	\$ 23,855,258
Capital assets, net of depreciation	<u>68,934,870</u>	<u>69,168,990</u>
Total assets	<u><u>\$ 92,580,363</u></u>	<u><u>\$ 93,024,248</u></u>
Liabilities		
Current and other liabilities	\$ 3,627,270	\$ 3,673,755
Long-term liabilities, including due within one year	<u>60,707,381</u>	<u>63,723,735</u>
Total liabilities	<u><u>\$ 64,334,651</u></u>	<u><u>\$ 67,397,490</u></u>
Deferred inflows of resources		
Property taxes levied for subsequent year	<u><u>\$ 10,385,399</u></u>	<u><u>\$ 7,859,529</u></u>
Net position		
Net investment in capital assets	\$ 11,471,462	\$ 10,124,781
Restricted	1,424,299	1,326,867
Unrestricted	<u>4,964,552</u>	<u>6,315,581</u>
Total net position	<u><u>\$ 17,860,313</u></u>	<u><u>\$ 17,767,229</u></u>

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for severance benefits and compensated absences, which are basically unfunded. This impacts the unrestricted portion of net position.

The District's total net position increased by \$93,084 during the year ended June 30, 2014. Net investment in capital assets increased by \$1,346,681, due to the relationship of debt retirement as compared to depreciation on capital assets, as well as increased construction in progress on the new elementary school. Unrestricted net position decreased by \$1,351,029, due mostly to the operating results of the General Fund, Debt Service Fund, and Internal Service Fund in the current year.

Table 2 presents a condensed version of the Statement of Activities of the District:

Table 2 Summary Statement of Activities for the Years Ended June 30, 2014 and 2013		
	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Charges for services	\$ 3,247,598	\$ 3,100,631
Operating grants and contributions	3,938,358	4,295,757
Capital grants and contributions	1,352,365	801,049
General revenues		
Property taxes	8,585,059	11,556,865
General grants and aids	24,487,681	21,352,625
Other	1,028,174	1,663,634
Total revenues	<u>42,639,235</u>	<u>42,770,561</u>
Expenses		
Administration	1,738,890	1,511,321
District support services	1,292,932	1,108,193
Elementary and secondary regular instruction	17,359,798	16,395,507
Vocational education instruction	604,895	589,598
Special education instruction	5,644,383	5,549,173
Instructional support services	1,532,351	1,166,442
Pupil support services	2,520,949	2,415,677
Sites and buildings	4,541,235	3,153,908
Fiscal and other fixed cost programs	107,460	91,036
Food service	1,368,529	1,344,172
Community service	2,091,210	1,891,568
Depreciation not allocated to other functions	750,341	798,582
Interest and fiscal charges on debt	2,993,178	3,124,634
Total expenses	<u>42,546,151</u>	<u>39,139,811</u>
Change in net position	93,084	3,630,750
Net position – beginning	<u>17,767,229</u>	<u>14,136,479</u>
Net position – ending	<u><u>\$ 17,860,313</u></u>	<u><u>\$ 17,767,229</u></u>

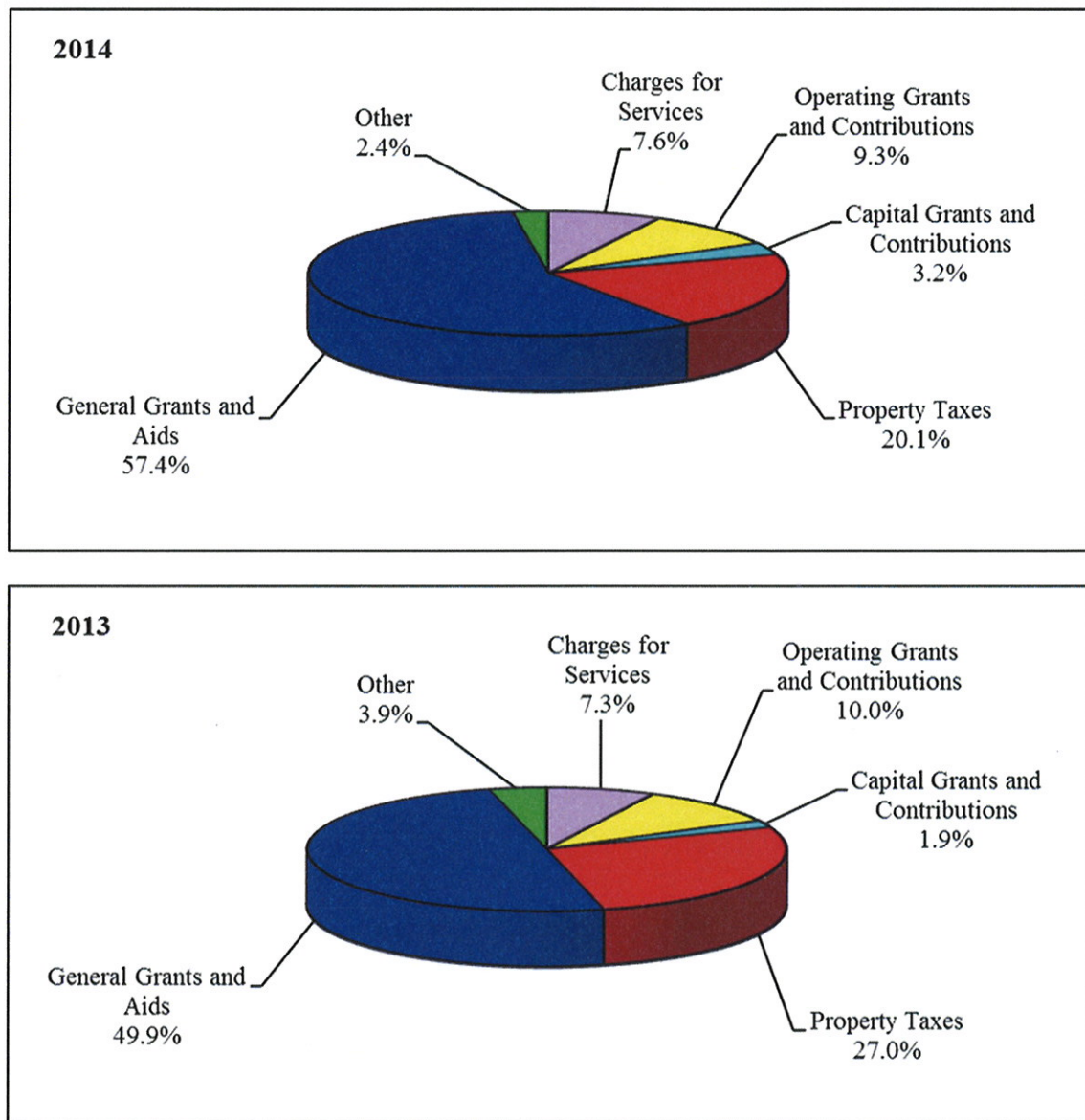
This format is similar to fund financial statements except that this is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

General grants and aids are greater and property taxes are lower in fiscal 2014, due mostly to the impact of the current year tax shift compared to the prior year.

The increase in sites and buildings expense relates to the sale of an elementary school building in the current year.

Figures A and B show further analysis of these revenue sources and expense functions:

Figure A – Sources of Revenues for Fiscal Years 2014 and 2013

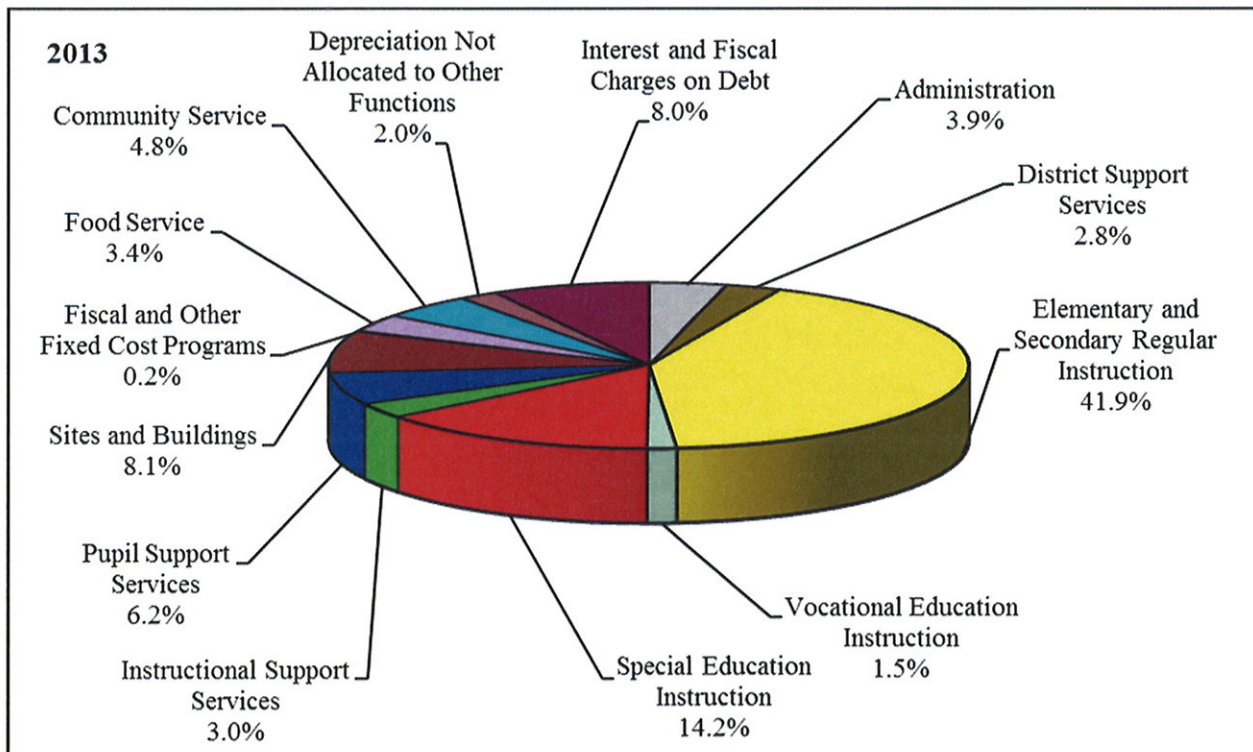
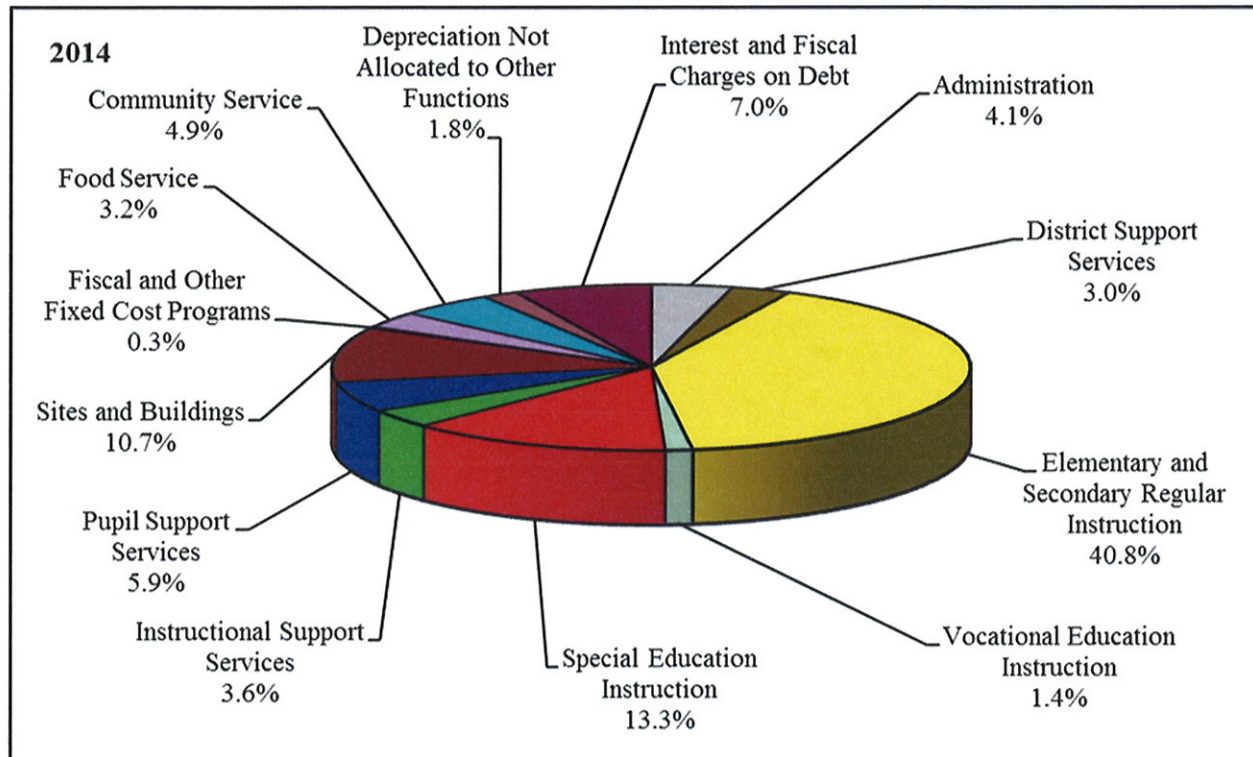


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position in recent years.

Property taxes are generally the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The proportionate share of district revenue from these two sources may change significantly between fiscal years, due to the "tax shift." The tax shift is an accounting tool used on occasion to balance the state budget, whereby districts recognize cash collections for the subsequent year's property tax levy as current year revenue, and the state adjusts aid payments to districts by an equal amount.

Figure B – Expenses for Fiscal Years 2014 and 2013



The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

Table 3 Governmental Fund Balances as of June 30, 2014 and 2013			
	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Major funds			
General	\$ 7,061,209	\$ 7,488,541	\$ (427,332)
Capital Projects – Building Construction	–	1,385,983	(1,385,983)
Debt Service			
Regular	648,839	1,022,076	(373,237)
Other post-employment benefits	61,456	43,081	18,375
Nonmajor funds			
Food Service Special Revenue	307,171	417,771	(110,600)
Community Service Special Revenue	<u>257,296</u>	<u>235,460</u>	<u>21,836</u>
Total governmental funds	<u>\$ 8,335,971</u>	<u>\$ 10,592,912</u>	<u>\$ (2,256,941)</u>

Table 3 shows the changes in fund balances by each governmental fund. The decrease in the General Fund balance was related to a planned decrease rather than making budget reductions for fiscal 2014. The Capital Projects – Building Construction Fund balance decreased in the current year due to the further spend-down of 2010B building bonds for construction project costs. The Food Service Special Revenue Fund balance decreased mainly due to lower participation in the school lunch program related to federal changes in meal offerings to students.

General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K–12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and other legal school district expenditures not specifically designated to be accounted for in any other fund.

Table 4 summarizes the amendments to the General Fund budget:

Table 4 General Fund Budget				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue	<u>\$ 32,756,493</u>	<u>\$ 33,164,501</u>	<u>\$ 408,008</u>	<u>1.2%</u>
Expenditures	<u>\$ 33,646,021</u>	<u>\$ 33,647,397</u>	<u>\$ 1,376</u>	<u>—</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements. The increase in revenue is due to the sale of an elementary school.

Table 5 summarizes the operating results of the General Fund:

Table 5 General Fund Operating Results					
	<u>2014</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue and other financing sources	\$ 34,091,275	\$ 926,774	2.8%	\$ 1,056,634	3.2%
Expenditures	<u>(34,518,607)</u>	\$ 871,210	2.6%	\$ 1,925,710	5.9%
Net change in fund balances	<u>\$ (427,332)</u>				

The state sources revenue budget variance of \$450,195 was mainly due to an increase in actual enrollment of about 40 average daily membership. Other sources were over budget by \$520,844 in the year ended June 30, 2014, due to donations received for the high school gymnasium and an elementary playground project.

The increase in revenues from the prior year was mainly due to the increase in student enrollment, the sale of an elementary school, and additional donations. The expenditure variance was spread across several programs and object categories of the General Fund. Expenditures increased from the prior year mostly due to a combination of increased personnel costs in the elementary and secondary regular instructional areas and increased capital outlay.

Comments on Significant Activities in Other Funds

The Food Service Special Revenue Fund balance decreased \$110,600 in fiscal 2014 due to new food choices offered to students in response to changes in federal guidelines. The fund balance at the end of the fiscal year was \$307,171, or 20.7 percent, of current year expenditures. This year was the ninth year of a successful joint powers agreement for food service with Independent School District No. 834, Stillwater Area Public Schools.

The Community Service Special Revenue Fund balance increased \$21,836 to a balance of \$257,296, or 12.2 percent, of expenditures.

The Capital Projects – Building Construction Fund balance decreased \$1.4 million due to the continued spend-down of 2010B building bonds for construction projects.

The Debt Service Fund balance ended fiscal 2014 at \$710,295, a decrease of \$354,862 due to a normal debt excess reduction by the county. The entire Debt Service Fund balance is dedicated for future debt service obligations.

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The District currently maintains one Internal Service Fund. This fund is used to account for the District's self-insured health insurance function. Operating revenues for the Internal Service Fund for fiscal 2014 totaled \$3,403,752. Operating expenses totaled \$3,846,586 for health benefit claims. The net position for the Internal Service Fund as of June 30, 2014 totaled a deficit of (\$138,097).

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2014 and 2013:

Table 6 Capital Assets			
	2014	2013	Increase (Decrease)
Land	\$ 1,561,766	\$ 1,571,466	\$ (9,700)
Construction in progress	39,916,597	38,526,783	1,389,814
Buildings	35,284,600	37,197,609	(1,913,009)
Land improvements	8,630,512	9,097,735	(467,223)
Furniture and equipment	2,220,758	2,169,438	51,320
Less accumulated depreciation	(18,679,363)	(19,394,041)	714,678
Total	<u>\$ 68,934,870</u>	<u>\$ 69,168,990</u>	<u>\$ (234,120)</u>
Depreciation expense	<u>\$ 960,491</u>	<u>\$ 1,001,951</u>	<u>\$ (41,460)</u>

The District's \$1.7 million of capital asset additions in fiscal 2014 relate to building construction on a new elementary school in the District. The overall decline in capital assets relates to the sale of an elementary school in the current year.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 7 Outstanding Long-Term Liabilities			
	2014	2013	Increase (Decrease)
General obligation bonds payable	\$ 60,030,000	\$ 63,230,000	\$ (3,200,000)
Net (discount) premium	(25,929)	(231,816)	205,887
Certificates of participation payable	225,000	400,000	(175,000)
Severance benefits payable	305,014	114,193	190,821
Compensated absences payable	173,296	211,358	(38,062)
Total	<u>\$ 60,707,381</u>	<u>\$ 63,723,735</u>	<u>\$ (3,016,354)</u>

The decrease in general obligation bonds payable is due to the planned repayment schedule reflecting principal payments during fiscal year 2014.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. (See Table 8)

Table 8	
Limitations on Debt	
District's market value	\$ 1,788,663,200
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 268,299,480</u>

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts increased \$78 per pupil in fiscal year 2014 to \$5,302. Beginning with the 2015 fiscal year, several funding and pupil weighting changes are effective, which include an equivalent increase of \$105, or 2.0 percent, for basic general education formula funding. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives and utilizes. Should you have questions about these statements or need additional information, please contact Rochel Manders, Director of Business Services [phone (651) 407-2000], Independent School District No. 832, 1520 Mahtomedi Avenue, Mahtomedi, Minnesota 55115.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Net Position
as of June 30, 2014
(With Partial Comparative Information as of June 30, 2013)

	Governmental Activities	
	2014	2013
Assets		
Cash and temporary investments	\$ 11,710,361	\$ 12,324,790
Receivables		
Current taxes	5,611,385	5,581,513
Delinquent taxes	193,867	262,588
Accounts and interest	39,294	60,477
Due from other governmental units	3,353,554	2,956,860
Inventory	18,046	23,231
Prepaid items	14,414	9,418
Negative net other post-employment benefits obligation	2,467,206	2,399,015
Restricted assets – temporarily restricted		
Cash and investments for debt service	237,366	237,366
Capital assets		
Not depreciated	41,478,363	40,098,249
Depreciated, net of accumulated depreciation	27,456,507	29,070,741
Total capital assets, net of accumulated depreciation	<u>68,934,870</u>	<u>69,168,990</u>
Total assets	<u>\$ 92,580,363</u>	<u>\$ 93,024,248</u>
Liabilities		
Salaries payable	\$ 105,913	\$ 56,686
Accounts and contracts payable	1,077,422	1,588,759
Accrued interest payable	1,130,922	1,149,981
Due to other governmental units	163,173	240,103
Unearned revenue	1,149,840	638,226
Long-term liabilities		
Due within one year	3,820,101	3,586,358
Due in more than one year	56,887,280	60,137,377
Total long-term liabilities	<u>60,707,381</u>	<u>63,723,735</u>
Total liabilities	64,334,651	67,397,490
Deferred inflows of resources		
Property taxes levied for subsequent year	10,385,399	7,859,529
Net position		
Net investment in capital assets	11,471,462	10,124,781
Restricted for		
Capital asset acquisition	865,639	669,340
Food service	307,171	417,771
Community service	259,789	239,756
Unrestricted	4,956,252	6,315,581
Total net position	<u>17,860,313</u>	<u>17,767,229</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 92,580,363</u>	<u>\$ 93,024,248</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Activities
Year Ended June 30, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

		2014				2013
					Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Program Revenues				
			Operating	Capital		
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities						
Administration	\$ 1,738,890	\$ —	\$ —	\$ —	\$ (1,738,890)	\$ (1,511,321)
District support services	1,292,932	—	—	—	(1,292,932)	(1,108,193)
Elementary and secondary regular instruction	17,359,798	367,243	129,946	—	(16,862,609)	(15,621,421)
Vocational education instruction	604,895	—	—	—	(604,895)	(589,598)
Special education instruction	5,644,383	—	3,428,122	—	(2,216,261)	(2,084,436)
Instructional support services	1,532,351	—	—	—	(1,532,351)	(1,166,442)
Pupil support services	2,520,949	19,664	—	—	(2,501,285)	(2,368,339)
Sites and buildings	4,541,235	59,503	—	1,352,365	(3,129,367)	(2,352,859)
Fiscal and other fixed cost programs	107,460	—	—	—	(107,460)	(91,036)
Food service	1,368,529	1,008,616	333,351	—	(26,562)	113,816
Community service	2,091,210	1,792,572	46,939	—	(251,699)	(239,329)
Depreciation not allocated to other functions	750,341	—	—	—	(750,341)	(798,582)
Interest and fiscal charges	2,993,178	—	—	—	(2,993,178)	(3,124,634)
Total governmental activities	<u>\$ 42,546,151</u>	<u>\$ 3,247,598</u>	<u>\$ 3,938,358</u>	<u>\$ 1,352,365</u>	(34,007,830)	(30,942,374)
General revenue						
Taxes						
Property taxes, levied for general purposes					3,589,054	5,858,242
Property taxes, levied for community service					141,468	269,427
Property taxes, levied for debt service					4,854,537	5,429,196
General grants and aids					24,487,681	21,352,625
Other general revenues					1,014,673	1,589,347
Investment earnings					13,501	74,287
Total general revenue					<u>34,100,914</u>	<u>34,573,124</u>
Change in net position					93,084	3,630,750
Net position – beginning					<u>17,767,229</u>	<u>14,136,479</u>
Net position – ending					<u>\$ 17,860,313</u>	<u>\$ 17,767,229</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Balance Sheet
Governmental Funds
as of June 30, 2014
(With Partial Comparative Information as of June 30, 2013)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	\$ 6,593,040	\$ –	\$ 3,331,784
Cash and investments held by trustee	237,366	–	–
Receivables			
Current taxes	2,729,332	–	2,736,685
Delinquent taxes	104,959	–	84,019
Accounts and interest	36,371	–	–
Due from other governmental units	3,348,557	–	310
Inventory	–	–	–
Prepaid items	11,571	–	–
Total assets	\$ 13,061,196	\$ –	\$ 6,152,798
Liabilities			
Salaries payable	\$ 72,935	\$ –	\$ –
Accounts and contracts payable	735,913	–	–
Due to other governmental units	106,875	–	–
Unearned revenue	332,088	–	–
Total liabilities	1,247,811	–	–
Deferred inflows of resources			
Property taxes levied for subsequent year	4,697,495	–	5,401,011
Unavailable revenue – delinquent taxes	54,681	–	41,492
Total deferred inflows of resources	4,752,176	–	5,442,503
Fund balances			
Nonspendable	11,571	–	–
Restricted	1,387,230	–	710,295
Assigned	2,228,509	–	–
Unassigned	3,433,899	–	–
Total fund balances	7,061,209	–	710,295
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,061,196	\$ –	\$ 6,152,798

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds	
	2014	2013
\$ 884,649	\$ 10,809,473	\$ 11,435,250
—	237,366	237,366
145,368	5,611,385	5,581,513
4,889	193,867	262,588
2,923	39,294	60,477
4,687	3,353,554	2,956,860
18,046	18,046	23,231
2,843	14,414	9,418
<u>\$ 1,063,405</u>	<u>\$ 20,277,399</u>	<u>\$ 20,566,703</u>
\$ 32,978	\$ 105,913	\$ 56,686
61,719	797,632	1,351,622
56,298	163,173	240,103
58,557	390,645	290,560
<u>209,552</u>	<u>1,457,363</u>	<u>1,938,971</u>
286,893	10,385,399	7,859,529
2,493	98,666	175,291
<u>289,386</u>	<u>10,484,065</u>	<u>8,034,820</u>
20,889	32,460	32,649
547,199	2,644,724	4,209,968
—	2,228,509	2,675,784
(3,621)	3,430,278	3,674,511
<u>564,467</u>	<u>8,335,971</u>	<u>10,592,912</u>
<u>\$ 1,063,405</u>	<u>\$ 20,277,399</u>	<u>\$ 20,566,703</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2014
(With Partial Comparative Information as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
Total fund balances – governmental funds	\$ 8,335,971	\$ 10,592,912
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	87,614,233	88,563,031
Accumulated depreciation	(18,679,363)	(19,394,041)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds	(60,030,000)	(63,230,000)
Net discount (premium)	25,929	231,816
Certificates of participation	(225,000)	(400,000)
Severance benefits	(305,014)	(114,193)
Compensated absences	(173,296)	(211,358)
Net other post-employment benefit obligations reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.		
	2,467,206	2,399,015
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.		
	(1,130,922)	(1,149,981)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		
	(138,097)	304,737
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.		
	<u>98,666</u>	<u>175,291</u>
Total net position – governmental activities	<u>\$ 17,860,313</u>	<u>\$ 17,767,229</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2014
 (With Partial Comparative Information for the Year Ended June 30, 2013)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	\$ 3,631,539	\$ –	\$ 4,887,023
Investment earnings	9,926	259	2,090
Other	2,033,367	–	–
State sources	27,284,326	–	3,097
Federal sources	626,783	–	737,365
Total revenue	<u>33,585,941</u>	<u>259</u>	<u>5,629,575</u>
Expenditures			
Current			
Administration	1,579,423	–	–
District support services	1,237,512	–	–
Elementary and secondary regular instruction	17,194,673	–	–
Vocational education instruction	597,955	–	–
Special education instruction	5,572,283	–	–
Instructional support services	1,482,572	–	–
Pupil support services	2,492,164	–	–
Sites and buildings	4,057,652	–	–
Fiscal and other fixed cost programs	107,460	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	1,386,242	–
Debt service			
Principal	175,000	–	3,200,000
Interest and fiscal charges	21,913	–	2,784,437
Total expenditures	<u>34,518,607</u>	<u>1,386,242</u>	<u>5,984,437</u>
Excess (deficiency) of revenue over expenditures	(932,666)	(1,385,983)	(354,862)
Other financing sources			
Sale of assets	<u>505,334</u>	<u>–</u>	<u>–</u>
Net change in fund balances	(427,332)	(1,385,983)	(354,862)
Fund balances			
Beginning of year	<u>7,488,541</u>	<u>1,385,983</u>	<u>1,065,157</u>
End of year	<u>\$ 7,061,209</u>	<u>\$ –</u>	<u>\$ 710,295</u>

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds	
	2014	2013
\$ 143,271	\$ 8,661,833	\$ 11,597,536
1,226	13,501	74,287
2,841,048	4,874,415	4,586,094
226,471	27,513,894	24,663,778
288,069	1,652,217	1,889,537
<u>3,500,085</u>	<u>42,715,860</u>	<u>42,811,232</u>
—	1,579,423	1,498,957
—	1,237,512	1,105,537
—	17,194,673	16,471,615
—	597,955	592,392
—	5,572,283	5,578,169
—	1,482,572	1,141,933
—	2,492,164	2,414,068
—	4,057,652	3,492,827
—	107,460	91,036
1,371,286	1,371,286	1,327,535
2,091,355	2,091,355	1,870,718
126,208	1,512,450	17,683,508
—	3,375,000	3,315,000
—	2,806,350	2,861,379
<u>3,588,849</u>	<u>45,478,135</u>	<u>59,444,674</u>
(88,764)	(2,762,275)	(16,633,442)
—	505,334	350
(88,764)	(2,256,941)	(16,633,092)
<u>653,231</u>	<u>10,592,912</u>	<u>27,226,004</u>
<u>\$ 564,467</u>	<u>\$ 8,335,971</u>	<u>\$ 10,592,912</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

	2014	2013
Total net change in fund balances – governmental funds	\$ (2,256,941)	\$ (16,633,092)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	1,687,035	18,125,725
Depreciation expense	(960,491)	(1,001,951)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(960,664)	(1,307)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds	3,200,000	3,140,000
Certificates of participation	175,000	175,000
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	19,059	13,712
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(205,887)	(276,967)
Certain expenses are included in the change in net position but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(190,821)	43,724
Compensated absences payable	38,062	2,309
Negative net other post-employment benefits obligation	68,191	(220,469)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the Internal Service Fund is included in the governmental activities in the Statement of Activities.	(442,834)	304,737
Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	(76,625)	(40,671)
Change in net position – governmental activities	<u>\$ 93,084</u>	<u>\$ 3,630,750</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 5,750,538	\$ 3,685,315	\$ 3,631,539	\$ (53,776)
Investment earnings	2,000	2,000	9,926	7,926
Other	1,477,650	1,512,523	2,033,367	520,844
State sources	24,796,936	26,834,131	27,284,326	450,195
Federal sources	729,369	630,532	626,783	(3,749)
Total revenue	<u>32,756,493</u>	<u>32,664,501</u>	<u>33,585,941</u>	<u>921,440</u>
Expenditures				
Current				
Administration	1,563,823	1,599,043	1,579,423	(19,620)
District support services	1,190,892	1,573,054	1,237,512	(335,542)
Elementary and secondary regular instruction	17,473,146	17,153,831	17,194,673	40,842
Vocational education instruction	612,619	569,412	597,955	28,543
Special education instruction	5,305,276	5,457,860	5,572,283	114,423
Instructional support services	1,152,904	1,133,235	1,482,572	349,337
Pupil support services	2,485,039	2,446,490	2,492,164	45,674
Sites and buildings	3,640,322	3,609,582	4,057,652	448,070
Fiscal and other fixed cost programs	222,000	104,890	107,460	2,570
Debt service				
Principal	—	—	175,000	175,000
Interest	—	—	21,913	21,913
Total expenditures	<u>33,646,021</u>	<u>33,647,397</u>	<u>34,518,607</u>	<u>871,210</u>
Excess (deficiency) of revenue over expenditures	(889,528)	(982,896)	(932,666)	50,230
Other financing sources				
Sale of assets	—	500,000	505,334	5,334
Net change in fund balances	<u>\$ (889,528)</u>	<u>\$ (482,896)</u>	<u>(427,332)</u>	<u>\$ 55,564</u>
Fund balances				
Beginning of year			<u>7,488,541</u>	
End of year			<u>\$ 7,061,209</u>	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Net Position
 Proprietary Fund
 Internal Service Fund
 as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and temporary investments	\$ 900,888	\$ 889,540
Liabilities		
Current liabilities		
Accounts and contracts payable	279,790	237,137
Unearned revenue	759,195	347,666
Total current liabilities	<u>1,038,985</u>	<u>584,803</u>
Net position		
Unrestricted	<u>\$ (138,097)</u>	<u>\$ 304,737</u>

Statement of Revenue, Expenses, and Changes in Fund Net Position
 Proprietary Fund
 Internal Service Fund
 Year Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenue		
Charges for services	\$ 3,403,752	\$ 3,757,320
Operating expenses		
Claims and settlements	<u>3,846,586</u>	<u>3,452,583</u>
Operating income	(442,834)	304,737
Net position		
Beginning of year	<u>304,737</u>	<u>—</u>
End of year	<u>\$ (138,097)</u>	<u>\$ 304,737</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Cash Flows
Proprietary Fund
Internal Service Fund
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Received from assessments made to other funds	\$ 3,815,281	\$ 4,104,986
Payments for claims	<u>(3,803,933)</u>	<u>(3,215,446)</u>
Net cash provided by operating activities	11,348	889,540
Cash and temporary investments		
Beginning of year	<u>889,540</u>	<u>—</u>
End of year	<u><u>\$ 900,888</u></u>	<u><u>\$ 889,540</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (442,834)	\$ 304,737
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in assets and liabilities		
Accounts and contracts payable	42,653	237,137
Unearned revenue	<u>411,529</u>	<u>347,666</u>
Net cash provided by operating activities	<u><u>\$ 11,348</u></u>	<u><u>\$ 889,540</u></u>

See notes to basic financial statements

Statement of Fiduciary Net Position
Fiduciary Funds
as of June 30, 2014

	Post-Employment Benefits Trust Fund
Assets	
Cash and temporary investments	\$ 1,177,205
Investments	
Local government obligations	992,234
MNTrust Investment Shares Portfolio	183,020
Accounts and interest receivable	17,448
Total assets	<u>2,369,907</u>
Liabilities	
Accounts and contracts payable	<u>103,313</u>
Net position	
Held in trust for other post-employment benefits	<u><u>\$ 2,266,594</u></u>

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Post-Employment Benefits Trust Fund
Additions	
Contributions	
Employer	\$ —
Investment earnings	30,928
Total additions	<u>30,928</u>
Deductions	
Benefits paid to plan members	<u>254,455</u>
Change in net position	(223,527)
Net position	
Beginning of year	<u>2,490,121</u>
End of year	<u><u>\$ 2,266,594</u></u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Notes to Basic Financial Statements June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 832, Mahtomedi, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a six-member School Board elected by voters of the District to serve four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, 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. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (the 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 includes 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.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board can elect to either control or not control extracurricular student activities. The District's School Board has elected to control and be financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and 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 Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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 internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as “depreciation not allocated to other functions.” Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. The proprietary fund (Internal Service Fund) is presented in the proprietary fund financial statements. Because the principal users of the internal services are the District’s governmental activities, the financial statement of the proprietary fund (Internal Service Fund) is consolidated into the governmental activities in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity. Fiduciary funds are presented in the fiduciary fund financial statements by type; pension (or other benefit) trust, private-purpose trust, and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the District’s Internal Service Fund is charges to employees for insurance. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are generally considered as available if collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, compensated absences, severance, other post-employment health benefits, and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and use the accrual basis of accounting as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the 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:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) Debt Service Account. The OPEB Debt Service Account is used to pay principal, interest, and related costs on the 2009A taxable OPEB bond issue.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used primarily to record financial activities of the District's child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Funds – The internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The District has one Internal Service Fund. The District's Internal Service Fund includes financing for self-insurance of the employee health insurance program.

Fiduciary Funds

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information

The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds except the Capital Projects – Building Construction Fund. Budgetary controls for the Capital Project – Building Construction Fund are accomplished through the use of project controls. Actual expenditures exceeded budgeted amounts in the General Fund by \$871,210.

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. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings from these proceeds are allocated specifically to that fund.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the General Fund, an escrow account is established for cash and investments held for debt service related to the issuance of certificates of participation. Interest earned in this trust account is allocated directly to the General Fund. The cash, investments, and related interest receivable are reported as restricted assets in the government-wide financial statements.

In the Post-Employment Benefits Trust Fund, investments reported at fair value are deposited by the District in an irrevocable trust account, the use of which is restricted to paying other post-employment health insurance benefits as specified in the trust agreement. Interest earned on this trust account is allocated directly to that fund.

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. 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.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Purchased food and supplies are recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aid by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$661,470 of the property tax levy collectible in 2014 as revenue to the District in fiscal year 2013–2014. The remaining portion of the taxes collectible in 2014 is recorded as a deferred inflow of resources (property taxes levied for the subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as deferred inflows of resources (unavailable revenue) in the fund-based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated capital 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 \$5,000 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 government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary, ranging from 20 to 50 years for land improvements and buildings and improvements, and 5 to 20 years for furniture and equipment. Capital assets that are not depreciated include land and construction in progress.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

M. Compensated Absences Payable

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end.

N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

O. Risk Management and Self-Insurance

- 1. General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2014.
- 2. Self-Insurance** – The District has established an Internal Service Fund to account for and finance its self-insured risk of loss for employee health insurance plans. Under this plan, the District provides coverage to participating employees and their dependants for certain health costs as described in the plans.

The District makes premium payments that include both employer and employee contributions to the Internal Service Fund on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the Internal Service Fund's claim liabilities for the current fiscal year were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013	\$ —	\$ 3,452,583	\$ (3,215,446)	\$ 237,137
2014	\$ 237,137	\$ 3,846,586	\$ (3,803,933)	\$ 279,790

P. Deferred Inflows of Resources

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

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

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

Q. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities, and deferred inflow of resources (if any). Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

S. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the Director of Business Services is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary (internal service) fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

U. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 3,524,518
Investments	10,771,668
Petty cash	<u>4,000</u>
Total	<u>\$ 14,300,186</u>

Cash and investments are presented in the financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 11,710,361
Restricted assets – temporarily restricted	
Cash and investments for debt service	237,366
Statement of Fiduciary Net Position	
Cash and temporary investments	1,177,205
Investments	
Local government obligations	992,234
MNTrust Investment Shares Portfolio	<u>183,020</u>
Total	<u>\$ 14,300,186</u>

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Deposits

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

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The District's deposit policy does not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$3,524,518 while the balance on the bank records was \$3,523,800. At June 30, 2014, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years			Carrying Value
	Credit Rating	Rating Agency	Less Than 1	1 to 5	6 to 10	
Local government obligations	AAA	S&P	\$ –	\$ 93,785	\$ –	\$ 93,785
Local government obligations	AA	S&P	\$ 305,202	\$ 115,508	\$ 224,595	645,305
Local government obligations	A	S&P	\$ –	\$ 253,145	\$ –	253,145
Negotiable certificate of deposit	N/A	N/A	\$ 972,169	\$ 144,991	\$ –	1,117,160
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund						
Liquid portfolio	AAA	S&P	N/A	N/A	N/A	580,535
First American Treasury Fund Obligation	AAA	S&P	N/A	N/A	N/A	237,366
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	7,844,372
Total						<u>\$ 10,771,668</u>

N/A – Not Applicable

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

OPEB Trust Fund – This fund represents investments administered by the District's OPEB Trust Fund investment managers. The District's investment policy, discussed previously, extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the state of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, and commercial paper of the highest quality with a maturity no longer than 270 days and in the Minnesota State Board of Investments. Investments are stated at fair value.

The OPEB Trust Agreement indicates permitted investments include one or more series of MNTrust shares relating to a separate portfolio of investments, or from multi-class shares of MNTrust within the same portfolio.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The District's investment policy states that the District will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The maximum percent of the District's portfolio in any instrument is as follows:

U.S. treasury obligations (bills, notes, and bonds)	100%
U.S. government agency securities and instrumentalities of government-sponsored corporations	100%
Bankers' acceptances (Ba)	75%
Commercial paper – prime (C)	75%
Repurchase agreements (Repos)	50%
Certificates of deposit (CDs)	75%
Local government investment pool	100%

Also, no more than 50 percent of the total portfolio will be with any one instrument.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policy includes limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 1,571,466	\$ –	\$ (9,700)	\$ 1,561,766
Construction in progress	38,526,783	1,389,814	–	39,916,597
Total capital assets, not depreciated	40,098,249	1,389,814	(9,700)	41,478,363
Capital assets, depreciated				
Buildings	37,197,609	–	(1,913,009)	35,284,600
Land improvements	9,097,735	46,963	(514,186)	8,630,512
Furniture and equipment	2,169,438	250,258	(198,938)	2,220,758
Total capital assets, depreciated	48,464,782	297,221	(2,626,133)	46,135,870
Less accumulated depreciation for				
Buildings	(15,853,054)	(706,709)	1,043,482	(15,516,281)
Land improvements	(2,270,208)	(126,403)	448,901	(1,947,710)
Furniture and equipment	(1,270,779)	(127,379)	182,786	(1,215,372)
Total accumulated depreciation	(19,394,041)	(960,491)	1,675,169	(18,679,363)
Net capital assets, depreciated	29,070,741	(663,270)	(950,964)	27,456,507
Total capital assets, net	\$ 69,168,990	\$ 726,544	\$ (960,664)	\$ 68,934,870

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2014 was charged to the following governmental functions:

Elementary and secondary regular instruction	\$ 26,306
Instructional support services	38,525
Pupil support services	5,760
Sites and buildings	116,829
Food service	21,895
Community education	835
Depreciation not allocated to other functions	<u>750,341</u>
Total depreciation expense	<u>\$ 960,491</u>

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
General obligation bonds payable					
School Building Bonds, Series 1995	06/01/1995	5.6–6.0%	\$ 5,194,754	02/01/2017	\$ 4,425,000
Taxable OPEB Bonds, Series 2009A	05/05/2009	3.5–5.4%	\$ 3,265,000	02/01/2024	2,505,000
School Refunding Bonds, Series 2010A	05/01/2010	4.0–5.0%	\$ 8,720,000	02/01/2018	6,685,000
School Building Bonds, Series 2010B (Build America Bonds)	07/26/2010	4.3–5.8%	\$ 45,000,000	02/01/2031	45,000,000
School Refunding Bonds, Series 2012A	05/01/2012	0.3–1.4%	\$ 2,135,000	02/01/2019	<u>1,415,000</u>
Total general obligation bonds payable					<u>\$ 60,030,000</u>

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
Certificates of participation payable					
1997A Certificates of Participation	01/01/1997	4.00–5.50%	\$ 2,390,000	02/01/2015	\$ 225,000

In January 1997, the District sold \$2,390,000 of certificates of participation under Minnesota Statute § 123B.51. Scheduled future ad valorem lease obligation tax levies will be made to finance the retirement of principal and interest payments on the certificates. These certificates of participation are being paid by the General Fund.

C. Description of Long-Term Liabilities

General Obligation School Building and Refunding Bonds – These bonds were issued to finance acquisition and/or construction of capital facilities or to refinance the retirement (refund) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

General Obligation Taxable OPEB Bonds – These obligations were issued to finance OPEB. Assets of the OPEB Debt Service Account, together with scheduled deferred ad valorem tax revenue, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Build America Bonds – The District’s 2010B General Obligation School Building Bonds were issued as Qualified School Construction Bonds – Direct Pay, for which the District will receive a federal tax credit equal to 35 percent of the interest payment on this debt issue.

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including severance benefits and compensated absences. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid primarily from the General Fund.

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and certificates of participation are as follows:

Year Ending June 30,	General Obligation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2015	\$ 3,245,000	\$ 2,725,360	\$ 225,000	\$ 12,375
2016	3,305,000	2,669,750	—	—
2017	3,225,000	2,622,613	—	—
2018	3,345,000	2,541,038	—	—
2019	3,185,000	2,376,403	—	—
2020–2024	15,900,000	9,814,338	—	—
2025–2029	19,155,000	5,570,935	—	—
2030–2031	8,670,000	746,005	—	—
	<u>\$ 60,030,000</u>	<u>\$ 29,066,442</u>	<u>\$ 225,000</u>	<u>\$ 12,375</u>

F. Changes in Long-Term Liabilities

	Balance – June 30, 2013	Additions	Retirements	Balance – June 30, 2014	Due Within One Year
General obligation bonds payable	\$ 63,230,000	\$ —	\$ 3,200,000	\$ 60,030,000	\$ 3,245,000
Net (discount) premium	(231,816)	—	(205,887)	(25,929)	—
Certificates of participation payable	400,000	—	175,000	225,000	225,000
Severance benefits payable	114,193	367,626	176,805	305,014	176,805
Compensated absences payable	211,358	253,223	291,285	173,296	173,296
	<u>\$ 63,723,735</u>	<u>\$ 620,849</u>	<u>\$ 3,637,203</u>	<u>\$ 60,707,381</u>	<u>\$ 3,820,101</u>

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

A. Classifications

At June 30, 2014, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	\$ –	\$ –	\$ –	\$ 18,046	\$ 18,046
Prepaid items	11,571	–	–	2,843	14,414
Total nonspendable	11,571	–	–	20,889	32,460
Restricted					
Operating capital	1,328,356	–	–	–	1,328,356
Deferred maintenance	58,874	–	–	–	58,874
Community education programs	–	–	–	233,616	233,616
Early childhood family education programs	–	–	–	27,158	27,158
Food service	–	–	–	286,425	286,425
Debt service	–	–	710,295	–	710,295
Total restricted	1,387,230	–	710,295	547,199	2,644,724
Assigned					
Separation benefits	411,850	–	–	–	411,850
Student activities	164,342	–	–	–	164,342
Building carryover	442,269	–	–	–	442,269
Subsequent year budget	710,048	–	–	–	710,048
New school operations	500,000	–	–	–	500,000
Total assigned	2,228,509	–	–	–	2,228,509
Unassigned					
School readiness restricted account deficit	–	–	–	(3,621)	(3,621)
Health and safety restricted account deficit	(225,351)	–	–	–	(225,351)
Capital project levy restricted account deficit	(8,300)	–	–	–	(8,300)
Unassigned	3,667,550	–	–	–	3,667,550
Total unassigned	3,433,899	–	–	(3,621)	3,430,278
Total	\$ 7,061,209	\$ –	\$ 710,295	\$ 564,467	\$ 8,335,971

NOTE 5 – FUND BALANCES (CONTINUED)

B. Fund Balance Policy

The School Board has formally adopted a fund balance policy. This policy states that the School Board will strive to maintain a minimum unassigned General Fund balance (excluding restricted account deficits) of 8 percent of total General Fund expenditures. At June 30, 2014, the unassigned fund balance of the General Fund was 10.6 percent of the total General Fund expenditures.

If the fund balance falls below 8 percent, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:

1. No new programs will be added at the District level unless matched by a like revenue source;
2. Allocations such as textbooks, supplies, etc., shall be frozen; and
3. The District will review other measures which shall not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenditures have historically been lower than budgeted levels.

If the fund balance is projected to decrease below 7 percent, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

C. Deficit Fund Balance

At June 30, 2014, the District's Internal Service Fund had a deficit fund balance of \$138,097.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or 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.

The 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described:

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier I

Step Rate Formula		Percentage per Year
Basic Plan		
First 10 years		2.2 percent
All years after		2.7 percent
Coordinated Plan		
First 10 years if service years are prior to July 1, 2006		1.2 percent
First 10 years if service years are July 1, 2006 or after		1.4 percent
All other years of service if service years are prior to July 1, 2006		1.7 percent
All other years of service if service years are July 1, 2006 or after		1.9 percent

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factor for all years under normal retirement age.
- 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 Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan 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 5.4 percent per year.

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

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 that 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 receiving them are bound by the provisions in effect at the time they last terminated their public service.

The TRA publicly issues a comprehensive annual financial report presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing the TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated Plan members and 11.0 percent for Basic Plan members during fiscal year 2014. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2013, 2012, and 2011, were approximately \$3.92 billion, \$3.87 billion, and \$3.84 billion, respectively.

The District's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,123,136, \$1,022,972, and \$916,686, respectively, equal to the contractually required contributions for each year as set by state statutes.

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 increased by 0.5 percent on July 1 of each year of the four-year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 percent.

Public Employees' Retirement Association (PERA)

A. Plan Description

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

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

The 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 statutes, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

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

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. The GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2014. In fiscal 2014, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to the GERP for the years ended June 30, 2014, 2013, and 2012 were \$281,934, \$273,919, and \$277,576, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

Beginning January 1, 2015, Coordinated Plan contribution rates will increase for employees and employers to 6.50 percent and 7.50 percent, respectively.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

In addition, full-time teachers who are at least 50 years of age or have completed 20 years of professional service in the appropriate unit in the District shall be eligible for severance pay pursuant to the provisions in the severance pay article of the teachers’ master agreement. All persons whose actual service began prior to July 1, 1989 shall be eligible for this benefit.

The full-time teachers shall accumulate 10 days of credit for each full year of actual teaching in the District up to a maximum of one year’s salary as determined by the salary schedule placement. In applying these provisions, a teacher’s daily rate of pay shall be the basic rate of the teacher’s last day of actual service as provided in the basic salary schedule for the basic school year. These amounts are contributed directly to a health savings account and are, therefore, by definition considered OPEB under the provisions of GASB Statement No. 45.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. There are invested plan assets accumulated for payment of future benefits which are held in the Post-Employment Benefits Trust Fund.

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

ARC	\$ 169,094
Interest on net OPEB obligation	(71,970)
Adjustment to ARC	<u>(165,315)</u>
Annual OPEB cost (expense)	(68,191)
Contributions made	<u>—</u>
Increase in net OPEB obligation	(68,191)
Negative net OPEB obligation – beginning of year	<u>(2,399,015)</u>
Negative net OPEB obligation – end of year	<u>\$ (2,467,206)</u>

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District's annual OPEB cost, the employer contribution, the percentage of annual OPEB cost contributed to the plan, and the negative net OPEB obligation for the current year are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Negative Net OPEB Obligation (Asset)</u>
2012	\$ 210,630	\$ 88,717	42.1 %	\$ (2,619,484)
2013	\$ 220,469	\$ –	– %	\$ (2,399,015)
2014	\$ (68,191)	\$ –	– %	\$ (2,467,206)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was 95.6 percent funded. The actuarial accrued liability for benefits was \$2,987,759, and the actuarial value of assets was \$2,854,978, resulting in an unfunded actuarial accrued liability (UAAL) of \$132,781. The covered payroll (annual payroll of active employees covered by the plan) was \$18,008,351, and the ratio of the UAAL to the covered payroll was 0.7 percent.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent for medical insurance; and an annual healthcare trend rate of 4.0 percent for dental insurance. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2012 for the various amortization layers ranged from 26 to 30 years.

F. Post-Employment Benefits Trust Fund

The District administers a defined benefit OPEB Plan. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The Post-Employment Benefits Trust Fund is reported using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

G. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	15
Active plan members	<u>330</u>
Total members	<u><u>345</u></u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Receivables

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

B. Legal Claims

The District has the usual and customary legal claims pending at year-end, mostly of minor nature and/or covered by insurance. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, replaces the requirements of GASB Statement Nos. 27 and 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described for GASB Statement No. 67). The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. This statement is effective for financial statements for fiscal years beginning after June 15, 2014.

NOTE 10 – SUBSEQUENT EVENT

In October 2014, the District issued General Obligation School Refunding Bonds 2014A totaling \$39,315,000 to refund three outstanding bond issues of the District. These bonds were issued with an average interest rate of 2.84 percent.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 832

Other Post-Employment Benefits Plan
Schedule of Funding Progress and Schedule of Employer Contributions
June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 3,162,316	\$ —	\$ 3,162,316	— %	\$ 16,347,056	19.3 %
July 1, 2010	\$ 2,994,460	\$ 2,905,712	\$ 88,748	97.0 %	\$ 16,983,592	0.5 %
July 1, 2012	\$ 2,987,759	\$ 2,854,978	\$ 132,781	95.6 %	\$ 18,008,351	0.7 %

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Employer Contributions	Percentage Contributed	Net OPEB Obligation
2009	\$ 348,926	\$ 3,459,283	991.4 %	\$ (3,110,357)
2010	\$ 162,427	\$ —	— %	\$ (2,901,103)
2011	\$ 161,340	\$ 63,744	28.5 %	\$ (2,741,397)
2012	\$ 148,541	\$ 88,717	59.7 %	\$ (2,619,484)
2013	\$ 157,604	\$ —	— %	\$ (2,399,015)
2014	\$ 169,094	\$ —	— %	\$ (2,467,206)

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 832

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2014

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	\$ 358,174	\$ 526,475	\$ 884,649
Receivables			
Current taxes	—	145,368	145,368
Delinquent taxes	—	4,889	4,889
Accounts and interest	—	2,923	2,923
Due from other governmental units	—	4,687	4,687
Inventory	18,046	—	18,046
Prepaid items	2,700	143	2,843
Total assets	<u>\$ 378,920</u>	<u>\$ 684,485</u>	<u>\$ 1,063,405</u>
Liabilities			
Salaries payable	\$ —	\$ 32,978	\$ 32,978
Accounts and contracts payable	15,591	46,128	61,719
Due to other governmental units	56,158	140	56,298
Unearned revenue	—	58,557	58,557
Total liabilities	<u>71,749</u>	<u>137,803</u>	<u>209,552</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	—	286,893	286,893
Unavailable revenue – delinquent taxes	—	2,493	2,493
Total deferred inflows of resources	<u>—</u>	<u>289,386</u>	<u>289,386</u>
Fund balances			
Nonspendable for inventory	18,046	—	18,046
Nonspendable for prepaids	2,700	143	2,843
Restricted	286,425	260,774	547,199
Unassigned	—	(3,621)	(3,621)
Total fund balances	<u>307,171</u>	<u>257,296</u>	<u>564,467</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 378,920</u>	<u>\$ 684,485</u>	<u>\$ 1,063,405</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	\$ —	\$ 143,271	\$ 143,271
Investment earnings	638	588	1,226
Other	1,038,170	1,802,878	2,841,048
State sources	45,282	181,189	226,471
Federal sources	288,069	—	288,069
Total revenue	<u>1,372,159</u>	<u>2,127,926</u>	<u>3,500,085</u>
Expenditures			
Current			
Food service	1,371,286	—	1,371,286
Community service	—	2,091,355	2,091,355
Capital outlay	111,473	14,735	126,208
Total expenditures	<u>1,482,759</u>	<u>2,106,090</u>	<u>3,588,849</u>
Net change in fund balances	(110,600)	21,836	(88,764)
Fund balances			
Beginning of year	<u>417,771</u>	<u>235,460</u>	<u>653,231</u>
End of year	<u>\$ 307,171</u>	<u>\$ 257,296</u>	<u>\$ 564,467</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Comparative Balance Sheet
as of June 30, 2014 and 2013

	2014	2013
Assets		
Cash and temporary investments	\$ 6,593,040	\$ 4,970,454
Cash and investments held by trustee	237,366	237,366
Receivables		
Current taxes	2,729,332	2,922,423
Delinquent taxes	104,959	143,464
Accounts and interest	36,371	50,472
Due from other governmental units	3,348,557	2,940,141
Prepaid items	11,571	6,272
Total assets	\$ 13,061,196	\$ 11,270,592
Liabilities		
Salaries payable	\$ 72,935	\$ 37,873
Accounts and contracts payable	735,913	370,181
Due to other governmental units	106,875	181,468
Unearned revenue	332,088	241,868
Total liabilities	1,247,811	831,390
Deferred inflows of resources		
Property taxes levied for subsequent year	4,697,495	2,853,644
Unavailable revenue – delinquent taxes	54,681	97,017
Total deferred inflows of resources	4,752,176	2,950,661
Fund balances (deficit)		
Nonspendable for prepaid items	11,571	6,272
Restricted for capital projects levy	–	97,300
Restricted for operating capital	1,328,356	1,031,057
Restricted for deferred maintenance	58,874	–
Assigned for separation benefits	411,850	411,850
Assigned for student activities	164,342	157,748
Assigned for building carryover	442,269	716,658
Assigned for subsequent year budget	710,048	889,528
Assigned for new school operations	500,000	500,000
Unassigned – deferred maintenance restricted account deficit	–	(43,932)
Unassigned – capital project levy restricted account deficit	(8,300)	–
Unassigned – health and safety restricted account deficit	(225,351)	(177,719)
Unassigned	3,667,550	3,899,779
Total fund balances	7,061,209	7,488,541
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,061,196	\$ 11,270,592

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 3,685,315	\$ 3,631,539	\$ (53,776)	\$ 5,886,674
Investment earnings	2,000	9,926	7,926	4,505
Other	1,512,523	2,033,367	520,844	1,815,553
State sources	26,834,131	27,284,326	450,195	24,570,965
Federal sources	630,532	626,783	(3,749)	756,594
Total revenue	32,664,501	33,585,941	921,440	33,034,291
Expenditures				
Current				
Administration				
Salaries	1,135,525	1,131,890	(3,635)	1,079,411
Employee benefits	372,168	375,962	3,794	351,776
Purchased services	66,000	25,578	(40,422)	45,647
Supplies and materials	9,500	25,379	15,879	8,904
Capital expenditures	—	814	814	—
Other expenditures	15,850	19,800	3,950	13,219
Total administration	1,599,043	1,579,423	(19,620)	1,498,957
District support services				
Salaries	732,284	535,006	(197,278)	447,838
Employee benefits	298,299	118,140	(180,159)	113,402
Purchased services	388,535	411,449	22,914	387,427
Supplies and materials	13,000	4,955	(8,045)	486
Capital expenditures	5,436	3,658	(1,778)	2,449
Other expenditures	135,500	164,304	28,804	153,935
Total district support services	1,573,054	1,237,512	(335,542)	1,105,537
Elementary and secondary regular instruction				
Salaries	11,182,750	11,034,744	(148,006)	10,831,556
Employee benefits	3,875,198	3,898,742	23,544	3,613,808
Purchased services	667,577	698,614	31,037	648,458
Supplies and materials	552,369	580,409	28,040	488,931
Capital expenditures	39,564	67,750	28,186	74,154
Other expenditures	836,373	914,414	78,041	814,708
Total elementary and secondary regular instruction	17,153,831	17,194,673	40,842	16,471,615

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	355,633	351,936	(3,697)	364,658
Employee benefits	111,744	113,311	1,567	123,689
Purchased services	86,600	112,366	25,766	90,349
Supplies and materials	14,300	14,872	572	13,451
Capital expenditures	500	5,125	4,625	—
Other expenditures	635	345	(290)	245
Total vocational education instruction	569,412	597,955	28,543	592,392
Special education instruction				
Salaries	3,621,701	3,646,964	25,263	3,740,284
Employee benefits	1,298,720	1,308,459	9,739	1,275,109
Purchased services	313,006	387,166	74,160	347,678
Supplies and materials	57,945	62,601	4,656	63,868
Capital expenditures	54,438	52,308	(2,130)	44,762
Other expenditures	112,050	114,785	2,735	106,468
Total special education instruction	5,457,860	5,572,283	114,423	5,578,169
Instructional support services				
Salaries	710,139	994,521	284,382	747,809
Employee benefits	282,603	383,009	100,406	261,117
Purchased services	71,636	48,949	(22,687)	65,455
Supplies and materials	62,029	48,735	(13,294)	66,960
Capital expenditures	1,500	3,351	1,851	—
Other expenditures	5,328	4,007	(1,321)	592
Total instructional support services	1,133,235	1,482,572	349,337	1,141,933
Pupil support services				
Salaries	652,193	678,158	25,965	661,413
Employee benefits	220,337	217,558	(2,779)	218,786
Purchased services	1,491,606	1,511,017	19,411	1,468,838
Supplies and materials	75,330	78,500	3,170	54,076
Capital expenditures	3,000	2,887	(113)	2,459
Other expenditures	4,024	4,044	20	8,496
Total pupil support services	2,446,490	2,492,164	45,674	2,414,068

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		2013
	Budget	Actual	Over (Under) Budget
			Actual
Expenditures (continued)			
Current (continued)			
Sites and buildings			
Salaries	900,486	849,520	(50,966)
Employee benefits	322,407	293,014	(29,393)
Purchased services	966,770	1,103,491	136,721
Supplies and materials	329,450	311,866	(17,584)
Capital expenditures	1,089,369	802,481	(286,888)
Other expenditures	1,100	697,280	696,180
Total sites and buildings	3,609,582	4,057,652	448,070
Fiscal and other fixed cost programs			
Purchased services	104,890	107,460	2,570
Debt service			
Principal	—	175,000	175,000
Interest	—	21,913	21,913
Total debt service	—	196,913	196,913
Total expenditures	33,647,397	34,518,607	871,210
Excess (deficiency) of revenue over expenditures	(982,896)	(932,666)	50,230
Other financing sources			
Sale of assets	500,000	505,334	5,334
Net change in fund balances	\$ (482,896)	(427,332)	\$ 55,564
Fund balances			
Beginning of year		7,488,541	7,046,797
End of year		\$ 7,061,209	\$ 7,488,541

INDEPENDENT SCHOOL DISTRICT NO. 832

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	\$ 358,174	\$ 454,797
Receivables		
Due from other governmental units	—	7,684
Inventory	18,046	23,231
Prepaid items	<u>2,700</u>	<u>2,700</u>
Total assets	<u>\$ 378,920</u>	<u>\$ 488,412</u>
Liabilities		
Accounts and contracts payable	\$ 15,591	\$ 18,450
Due to other governmental units	<u>56,158</u>	<u>52,191</u>
Total liabilities	<u>71,749</u>	<u>70,641</u>
Fund balances		
Nonspendable for inventory	18,046	23,231
Nonspendable for prepaid items	2,700	2,700
Restricted for food service	<u>286,425</u>	<u>391,840</u>
Total fund balances	<u>307,171</u>	<u>417,771</u>
Total liabilities and fund balances	<u>\$ 378,920</u>	<u>\$ 488,412</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 350	\$ 638	\$ 288	\$ 585
Other – primarily meal sales	1,052,247	1,038,170	(14,077)	1,082,054
State sources	44,737	45,282	545	44,053
Federal sources	278,422	288,069	9,647	331,894
Total revenue	1,375,756	1,372,159	(3,597)	1,458,586
Expenditures				
Current				
Salaries	117,000	117,340	340	108,181
Employee benefits	5,960	4,819	(1,141)	3,454
Purchased services	584,710	565,957	(18,753)	549,799
Supplies and materials	698,000	681,685	(16,315)	664,581
Other expenditures	–	1,485	1,485	1,520
Capital outlay	124,274	111,473	(12,801)	289,463
Total expenditures	1,529,944	1,482,759	(47,185)	1,616,998
Net change in fund balances	\$ (154,188)	(110,600)	\$ 43,588	(158,412)
Fund balances				
Beginning of year		417,771		576,183
End of year		\$ 307,171		\$ 417,771

INDEPENDENT SCHOOL DISTRICT NO. 832

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	\$ 526,475	\$ 316,783
Receivables		
Current taxes	145,368	142,902
Delinquent taxes	4,889	6,352
Accounts and interest	2,923	10,005
Due from other governmental units	4,687	8,561
Prepaid items	<u>143</u>	<u>446</u>
Total assets	<u><u>\$ 684,485</u></u>	<u><u>\$ 485,049</u></u>
Liabilities		
Salaries payable	\$ 32,978	\$ 18,813
Accounts and contracts payable	46,128	29,359
Due to other governmental units	140	6,444
Unearned revenue	<u>58,557</u>	<u>48,692</u>
Total liabilities	137,803	103,308
Deferred inflows of resources		
Property taxes levied for subsequent year	286,893	141,985
Unavailable revenue – delinquent taxes	<u>2,493</u>	<u>4,296</u>
Total deferred inflows of resources	289,386	146,281
Fund balances (deficit)		
Nonspendable for prepaid items	143	446
Restricted for community education programs	233,616	222,834
Restricted for early childhood family education programs	27,158	15,797
Unassigned – school readiness restricted account deficit	<u>(3,621)</u>	<u>(3,617)</u>
Total fund balances	<u>257,296</u>	<u>235,460</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 684,485</u></u>	<u><u>\$ 485,049</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 141,610	\$ 143,271	\$ 1,661	\$ 270,687
Investment earnings	—	588	588	271
Other – primarily tuition and fees	1,910,374	1,802,878	(107,496)	1,619,357
State sources	53,102	181,189	128,087	45,270
Total revenue	<u>2,105,086</u>	<u>2,127,926</u>	<u>22,840</u>	<u>1,935,585</u>
Expenditures				
Current				
Salaries	1,201,718	1,184,652	(17,066)	933,913
Employee benefits	404,748	391,110	(13,638)	327,197
Purchased services	443,072	433,038	(10,034)	537,313
Supplies and materials	63,862	57,752	(6,110)	63,768
Other expenditures	2,693	24,803	22,110	8,527
Capital outlay	13,322	14,735	1,413	28,324
Total expenditures	<u>2,129,415</u>	<u>2,106,090</u>	<u>(23,325)</u>	<u>1,899,042</u>
Net change in fund balances	<u>\$ (24,329)</u>	21,836	<u>\$ 46,165</u>	36,543
Fund balances				
Beginning of year		<u>235,460</u>		<u>198,917</u>
End of year		<u>\$ 257,296</u>		<u>\$ 235,460</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	<u>\$ —</u>	<u>\$ 2,317,315</u>
Liabilities		
Accounts and contracts payable	\$ —	\$ 931,332
Fund balances		
Restricted for building construction	<u> —</u>	<u> 1,385,983</u>
Total liabilities and fund balances	<u>\$ —</u>	<u>\$ 2,317,315</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Revenue		
Local sources		
Investment earnings	\$ 259	\$ 66,695
Other	<u>—</u>	<u>69,130</u>
Total revenue	259	135,825
Expenditures		
Capital outlay		
Purchased services	131,774	592,531
Capital expenditures	<u>1,254,468</u>	<u>16,773,190</u>
Total expenditures	<u>1,386,242</u>	<u>17,365,721</u>
Net change in fund balances	(1,385,983)	(17,229,896)
Fund balances		
Beginning of year	<u>1,385,983</u>	<u>18,615,879</u>
End of year	<u><u>\$ —</u></u>	<u><u>\$ 1,385,983</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Debt Service Fund
Balance Sheet by Account
as of June 30, 2014
(With Comparative Totals as of June 30, 2013)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2014	2013
Assets				
Cash and temporary investments	\$ 3,118,340	\$ 213,444	\$ 3,331,784	\$ 3,375,901
Receivables				
Current taxes	2,577,450	159,235	2,736,685	2,516,188
Delinquent taxes	78,435	5,584	84,019	112,772
Due from other governmental units	288	22	310	474
	<u>288</u>	<u>22</u>	<u>310</u>	<u>474</u>
Total assets	<u>\$ 5,774,513</u>	<u>\$ 378,285</u>	<u>\$ 6,152,798</u>	<u>\$ 6,005,335</u>
Liabilities				
Accounts and contracts payable	\$ —	\$ —	\$ —	\$ 2,300
Deferred inflows of resources				
Property taxes levied for subsequent year	5,086,752	314,259	5,401,011	4,863,900
Unavailable revenue – delinquent taxes	38,922	2,570	41,492	73,978
Total deferred inflows of resources	<u>5,125,674</u>	<u>316,829</u>	<u>5,442,503</u>	<u>4,937,878</u>
Fund balances				
Restricted for debt service	<u>648,839</u>	<u>61,456</u>	<u>710,295</u>	<u>1,065,157</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,774,513</u>	<u>\$ 378,285</u>	<u>\$ 6,152,798</u>	<u>\$ 6,005,335</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Budget and Actual
Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)

		2014	
		Actual	
		Regular	OPEB
		Debt Service	Debt Service
	Budget	Account	Account
Revenue			
Local sources			
Property taxes	\$ 4,863,652	\$ 4,538,412	\$ 348,611
Investment earnings	5,000	2,090	—
State sources	—	2,875	222
Federal sources	801,049	737,365	—
Total revenue	5,669,701	5,280,742	348,833
Expenditures			
Debt service			
Principal	2,152,540	3,000,000	200,000
Interest	3,823,618	2,645,700	130,458
Fiscal charges and other	15,450	8,279	—
Total expenditures	5,991,608	5,653,979	330,458
Net change in fund balances	\$ (321,907)	(373,237)	18,375
Fund balances			
Beginning of year		1,022,076	43,081
End of year		\$ 648,839	\$ 61,456

		2013
Total	Over (Under) Budget	Actual
\$ 4,887,023	\$ 23,371	\$ 5,440,175
2,090	(2,910)	2,231
3,097	3,097	3,490
737,365	(63,684)	801,049
5,629,575	(40,126)	6,246,945
3,200,000	1,047,460	3,140,000
2,776,158	(1,047,460)	2,819,319
8,279	(7,171)	10,697
5,984,437	(7,171)	5,970,016
(354,862)	\$ (32,955)	276,929
1,065,157		788,228
\$ 710,295		\$ 1,065,157

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor Pass/Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
U.S. Department of Education		
Passed through Minnesota Department of Education		
Special education cluster		
Special Education – Grants to States	84.027	\$ 479,837
Special Education – Preschool Grants	84.173	<u>13,165</u>
Total special education cluster		493,002
Improving Teacher Quality State Grants	84.367	43,518
Title I – Grants to Local Educational Agencies	84.010	78,855
Special Education – Grants for Infants and Families	84.181	3,781
Passed through Intermediate School District No. 916		
Career and Technical Education – Basic Grants to States	84.048	7,574
U.S. Department of Agriculture		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	9,257
National School Lunch Program	10.555	277,351
Special Milk Program for Children	10.556	<u>1,461</u>
Total child nutrition cluster		<u>288,069</u>
Total federal awards		<u>\$ 914,799</u>

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: Non-monetary assistance of \$46,698 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

Note 3: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 4: The District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA No.	Amount Provided
Title I – Grants to Local Education Agencies	84.010	\$ 1,505
Improving Teacher Quality State Grants	84.367	\$ 482

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

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 832, Mahtomedi, Minnesota (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated INSERT DATE.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

(continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSES TO FINDINGS

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

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

Minneapolis, Minnesota
INSERT DATE

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

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 832, Mahtomedi, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Minneapolis, Minnesota
INSERT DATE

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 832, Mahtomedi, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated INSERT DATE.

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

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 *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-002. 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 District's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

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

Minneapolis, Minnesota
INSERT DATE

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through entities answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued? ☒ Unmodified
☐ Qualified
☐ Adverse
☐ Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiencies identified? ☒ Yes ☐ No

Noncompliance material to the financial statements noted? ☐ Yes ☒ None reported

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiencies identified? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs? ☒ Unmodified
☐ Qualified
☐ Adverse
☐ Disclaimer

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ☐ Yes ☒ No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Agriculture child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555
– Special Milk Program for Children	10.556

Threshold for distinguishing type A and B programs. \$ 300,000

Does the auditee qualify as a low-risk auditee? ☒ Yes ☐ No

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2014-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – Independent School District No. 832, Mahtomedi, Minnesota (the District) has limited segregation of duties in several areas, including the processing of general disbursements and payroll transactions.

Questioned Costs – Not applicable.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

Corrective Action Plan

Actions Planned – The District intends to review the transaction cycles identified above and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. Upon completion of this review, the District will weigh the related costs and benefits associated with implementation changes needed to eliminate this condition.

Official Responsible – The Director of Business Services.

Planned Completion Date – June 30, 2015.

Disagreement With or Explanation of Finding – The District has no disagreement with the finding.

Plan to Monitor – The Director of Business Services will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2014

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2014-002 Claims and Disbursements

Criteria – Minnesota Statute § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For six disbursements selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – Six of twenty-five disbursements tested were not in compliance. This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – Certain payments made to vendors were not paid within the timeframe as required by state statute, and the vendors were not paid interest to which they were entitled.

Recommendation – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

Corrective Action Plan

Actions Planned – The District will review the payment procedures and will properly pay all invoices within the 35-day time limit.

Official Responsible – The Director of Business Services.

Planned Completion Date – June 30, 2015.

Disagreement With or Explanation of Finding – The District has no disagreement with the finding.

Plan to Monitor – The Director of Business Services will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2014

**E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

None.

INDEPENDENT SCHOOL DISTRICT NO. 832

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2014

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 33,585,941	\$ 33,585,938	\$ 3
Total expenditures		\$ 34,518,607	\$ 34,518,603	\$ 4
Nonspendable				
460	Nonspendable fund balance	\$ 11,571	\$ 11,571	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ 58,874	\$ 58,874	\$ –
406	Health and safety	\$ (225,351)	\$ (225,351)	\$ –
407	Capital projects levy	\$ (8,300)	\$ (8,300)	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
411	Severance pay	\$ –	\$ –	\$ –
413	Projects funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 1,328,356	\$ 1,328,356	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ 2,228,509	\$ 2,228,509	\$ –
Unassigned				
422	Unassigned fund balance	\$ 3,667,550	\$ 3,667,550	\$ –
Food Service				
Total revenue		\$ 1,372,159	\$ 1,372,159	\$ –
Total expenditures		\$ 1,482,759	\$ 1,482,759	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 20,746	\$ 20,746	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 286,425	\$ 286,425	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Community Service				
Total revenue		\$ 2,127,926	\$ 2,127,924	\$ 2
Total expenditures		\$ 2,106,090	\$ 2,106,089	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ 143	\$ 143	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 233,616	\$ 233,616	\$ –
432	ECFE	\$ 27,158	\$ 27,158	\$ –
444	School readiness	\$ (3,621)	\$ (3,621)	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 832

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2014

		Audit	UFARS	Audit - UFARS
Building Construction				
Total revenue		\$ 259	\$ 259	\$ --
Total expenditures		\$ 1,386,242	\$ 1,386,242	\$ --
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted/reserve				
407	Capital projects levy	\$ --	\$ --	\$ --
409	Alternative facility program	\$ --	\$ --	\$ --
413	Project funded by COP	\$ --	\$ --	\$ --
Restricted				
464	Restricted fund balance	\$ --	\$ --	\$ --
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --
Debt Service				
Total revenue		\$ 5,280,742	\$ 5,280,741	\$ 1
Total expenditures		\$ 5,653,979	\$ 5,653,979	\$ --
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted/reserve				
425	Bond refundings	\$ --	\$ --	\$ --
451	QZAB payments	\$ --	\$ --	\$ --
Restricted				
464	Restricted fund balance	\$ 648,839	\$ 648,839	\$ --
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --
Trust				
Total revenue		\$ --	\$ --	\$ --
Total expenditures		\$ --	\$ --	\$ --
422	Net position	\$ --	\$ --	\$ --
Internal Service				
Total revenue		\$ 3,403,752	\$ 3,403,752	\$ --
Total expenditures		\$ 3,846,586	\$ 3,846,586	\$ --
422	Net position	\$ (138,097)	\$ (138,097)	\$ --
OPEB Revocable Trust Fund				
Total revenue		\$ --	\$ --	\$ --
Total expenditures		\$ --	\$ --	\$ --
422	Net position	\$ --	\$ --	\$ --
OPEB Irrevocable Trust Fund				
Total revenue		\$ 30,928	\$ 30,928	\$ --
Total expenditures		\$ 254,455	\$ 254,455	\$ --
422	Net position	\$ 2,266,594	\$ 2,266,594	\$ --
OPEB Debt Service Fund				
Total revenue		\$ 348,833	\$ 348,832	\$ 1
Total expenditures		\$ 330,458	\$ 330,458	\$ --
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted				
425	Bond refundings	\$ --	\$ --	\$ --
464	Restricted fund balance	\$ 61,456	\$ 61,456	\$ --
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.