

**INDEPENDENT SCHOOL DISTRICT NO. 879
Delano, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 879

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INDEPENDENT SCHOOL DISTRICT NO. 879
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2014

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Amy Johnson	Chairperson	December 31, 2016
Randy Durick	Vice Chairperson	December 31, 2016
Carolyn Milano	Clerk	December 31, 2014
Lisa Seguin	Treasurer	December 31, 2014
Mark Larson	Director	December 31, 2014
Sarah Baker	Director	December 31, 2016
Corey Black	Director	December 31, 2014

Administration

Matthew Schoen	Superintendent
Mary Reeder	Business Manager



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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



Opinions

In our opinion, the financial statements referred to on the previous present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2014, and the respective changes in financial position 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, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 50, 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 (GASB), 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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance 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 such partial information was derived.

We also have previously audited the District's 2013 basic financial statements and our report, dated November 6, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viero, Ltd".

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
November 6, 2014

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2014

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- *General Fund 01:* - The overall fund balance decreased by \$ 77,001.
- *Food Service Fund 02:* - The overall fund balance decreased by \$ 17,101.
- *Community Service Fund 04:* - The overall fund balance decreased by \$ 18,852.
- *Debt Service Fund 07:* - The overall fund balance decreased by \$ 225,317.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

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

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
 - 1. Government-Wide Financial Statements
 - 2. Fund Financial Statements

Government-Wide Financial Statements

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

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Fund Financial Statements (Continued)

The District has two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on:

- (1) How cash and other financial assets that can readily be converted to cash flow in and out and
- (2) The balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them

- **Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

**Net Position
Table A-1**

	Governmental Activities		Percentage Change
	2014	2013	
Current and Other Assets	\$ 15,173,747	\$ 14,167,771	7.10%
Capital Assets	28,322,106	28,907,006	-2.02%
Total Assets	43,495,853	43,074,777	0.98%
Current Liabilities	4,572,039	4,347,454	5.17%
Long-Term Liabilities	21,310,187	22,963,464	-7.20%
Total Liabilities	25,882,226	27,310,918	-5.23%
Deferred Inflows of Resources	4,730,348	3,538,470	33.68%
Net Position:			
Invested in Capital Assets,			
Net of Related Debt	5,352,069	4,343,918	23.21%
Restricted	2,398,737	2,747,705	-12.70%
Unrestricted	5,132,473	5,133,766	-0.03%
Net Position	\$ 12,883,279	\$ 12,225,389	5.38%

The District's combined net position was \$ 12,883,279 on June 30, 2014, an increase of \$ 657,890. (See Table A-1.)

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Changes in Net Position

The following Table A-2 presents the change in net Position of the District:

**Change in Net Position
Table A-2**

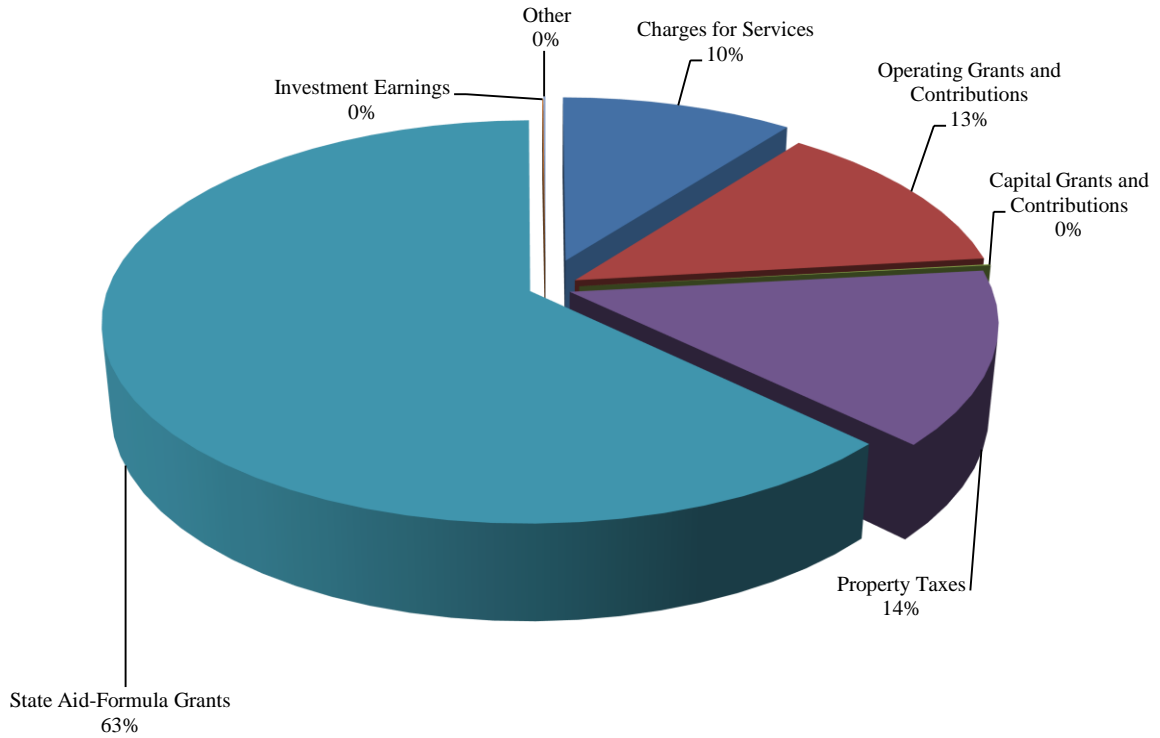
	Governmental Activities for the Fiscal Year Ended June, 30		Total Percentage Change
	2014	2013	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 2,794,367	\$ 2,745,775	1.77%
Operating Grants and Contributions	3,451,856	3,035,665	13.71%
Capital Grants and Contributions	23,068	21,245	8.58%
General Revenues:			
Property Taxes	3,761,805	4,975,844	-24.40%
State Aid-Formula Grants	16,889,947	14,769,220	14.36%
Investment Earnings	13,135	12,446	5.54%
Other	24,737	48	51435.42%
Total Revenues	<u>26,958,915</u>	<u>25,560,243</u>	<u>5.47%</u>
EXPENDITURES:			
Administration	1,090,016	1,046,485	4.16%
District Support Services	1,112,722	506,073	119.87%
Elementary and Secondary Regular Instruction	10,827,650	10,618,138	1.97%
Vocational Education Instruction	317,703	264,378	20.17%
Special Education Instruction	2,943,568	2,574,386	14.34%
Instructional Support Services	989,538	745,413	32.75%
Pupil Support Services	1,929,329	1,917,102	0.64%
Sites and Buildings	2,074,850	1,940,776	6.91%
Fiscal and Other Fixed Cost Programs	94,862	92,345	2.73%
Food Service	968,887	895,174	8.23%
Community Education and Services	2,136,698	2,026,675	5.43%
Unallocated Depreciation	809,823	805,608	0.52%
Interest and Fiscal Charges on Long-Term Debt	1,005,379	1,064,234	-5.53%
Total Expenditures	<u>26,301,025</u>	<u>24,496,787</u>	<u>7.37%</u>
Increase/(Decrease) in Net Position	657,890	1,063,456	-38.14%
Beginning of Year Net Position	12,225,389	10,803,183	9.53%
Prior Period Adjustment	-	358,750	
End of Year Net Position	<u>\$ 12,883,279</u>	<u>\$ 12,225,389</u>	<u>5.38%</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

The District's total revenues were \$ 26,958,915 for the year ended June 30, 2014. Property taxes and state aid-formula grants accounted for 77% of total revenue for the year. (See Figure A-1). The remaining 23% came from other program revenues (charges for services and operating and capital grants and contributions), general revenues and investment earnings.

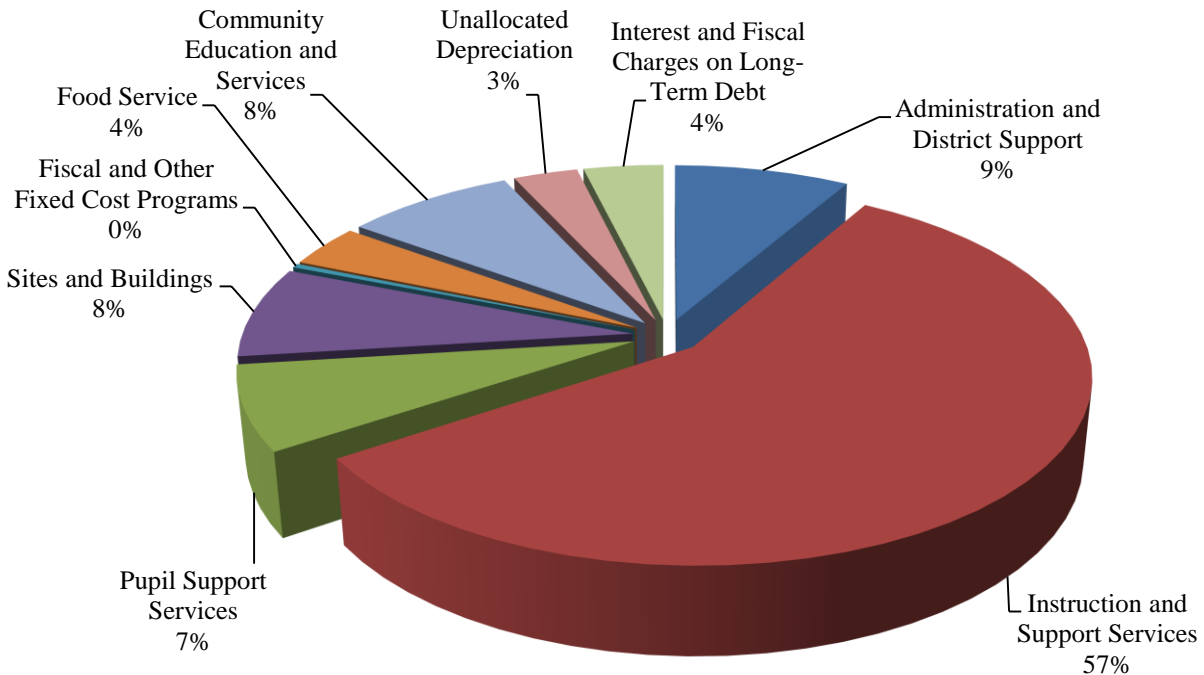
Figure A-1 Sources of District's Revenues for Fiscal 2014



INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

Figure A-2 District Expenses for Fiscal 2014



The total costs of all programs and services were \$ 26,301,025 for fiscal year 2014. The District's expenses are predominately related to instruction and pupil support services (64%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 4%, and 8% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was \$ 26,301,025.

- Some of the cost was paid by the users of the District's programs - \$ 2,794,367
- The federal and state governments subsidized certain programs with grants and contributions - \$ 3,474,924
- Most of the District's costs - \$ 20,031,734, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 64% of those resources are spent on instruction and support services associated with education.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

NET COST OF GOVERNMENTAL ACTIVITIES

Table A-3

	Total Cost of Services		Total	Net Cost of Services		Total
	2014	2013	Percentage	2014	2013	Percentage
			Change			Change
	2014	2013	2013-2014	2014	2013	2013-2014
Administration	\$ 1,090,016	\$ 1,046,485	4.16%	\$ 1,008,017	\$ 991,255	1.69%
District Support Services	1,112,722	506,073	119.87%	1,102,873	477,177	131.12%
Elementary and Secondary Regular Education	10,827,650	10,618,138	1.97%	9,939,519	9,770,725	1.73%
Vocational Education Instruction	317,703	264,378	20.17%	317,703	264,025	20.33%
Special Education Instruction	2,943,568	2,574,386	14.34%	1,039,387	848,268	22.53%
Instructional Support Services	989,538	745,413	32.75%	975,653	732,853	33.13%
Pupil Support Services	1,929,329	1,917,102	0.64%	1,876,459	1,855,727	1.12%
Sites and Buildings	2,074,850	1,940,776	6.91%	1,643,159	1,618,029	1.55%
Fiscal and Other Fixed Cost Programs	94,862	92,345	2.73%	94,862	92,345	2.73%
Food Service	968,887	895,174	8.23%	17,523	(45,560)	-138.46%
Community Education and Services	2,136,698	2,026,675	5.43%	201,377	219,416	-8.22%
Unallocated Depreciation	809,823	805,608	0.52%	809,823	805,608	0.52%
Interest and Fiscal Charges on Long-Term Debt	1,005,379	1,064,234	-5.53%	1,005,379	1,064,234	-5.53%
Total	\$ 26,301,025	\$24,496,787	7.37%	\$ 20,031,734	\$18,694,102	7.16%

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

In addition, GASB Statement No. 34 requires certain revenues and expenditures to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is shown on page 23 and shows a net change in Position of \$ 657,890.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 7,477,032, a decrease of \$ 338,271 over last year's ending fund balance of \$ 7,815,303.

Revenues and other financing sources for the District's governmental funds were \$ 26,993,046, while total expenditures and other financing uses were \$ 27,331,317, for a negative net change of \$ 338,271.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

General Fund

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

General Fund revenues are outlined in Table A-4 below:

SUMMARY OF GENERAL FUND REVENUES

Table A-4

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30,			
	2014	2013		
LOCAL SOURCES:				
Property Taxes	\$ 1,607,111	\$ 2,543,612	\$ (936,501)	-36.82%
Other Local and County Sources	990,967	897,607	93,360	10.40%
State Sources	18,847,368	16,573,237	2,274,131	13.72%
Federal Sources	360,743	317,273	43,470	13.70%
Sales and Other Conversion of Assets	9,230	10,922	(1,692)	-15.49%
Total General Fund Revenue	\$ 21,815,419	\$ 20,342,651	\$ 1,472,768	7.24%

Revenues from the General Fund totaled \$ 21,815,419, an increase of 7.24% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

Property taxes decreased and state sources of revenue increased due to the property tax shift being paid back in the 2013-2014 school year, as well as for increased enrollment and special education revenue. Other local and county sources increased due to a donation received for the Auditorium renovation project. The change in state sources of revenue was due to increased enrollment, which increased general education aid, as well, as increased special education expenditures, which in turn, increased state special education revenue. The change in federal sources was due to one-time federal funds received to offset the cost of early retiree reinsurance program.

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

General Fund expenditures are itemized in Table A-5:

**SUMMARY OF GENERAL FUND EXPENDITURES
Table A-5**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30,			
	2014	2013		
Salaries	\$ 11,593,987	\$ 10,745,007	\$ 848,980	7.90%
Employee Benefits	4,653,458	4,254,065	399,393	9.39%
Purchased Services	3,341,183	3,116,336	224,847	7.22%
Supplies and Materials	947,787	1,050,675	(102,888)	-9.79%
Capital Expenditures	953,662	372,740	580,982	155.85%
Other Expenditures	411,184	428,717	(17,533)	-4.09%
Total General Fund Expenditure	\$ 21,901,261	\$ 19,967,540	\$ 1,933,721	9.68%

Total General Fund expenditures increased by \$ 1,933,721 or 9.68% over the previous year.

Salaries increased due to hiring new staff due to enrollment and special education needs, as well as contract settlements. Employee benefits increased due benefits associated with additional new staff and contract changes, as well as .50% increase to TRA. Professional services increased due to costs associated with the Middle School roof, Auditorium and Security/Technology upgrade projects. Supplies and materials decreased because two years of curriculum purchasing occurred in the 2012-2013 school year. Capital expenditures increased due to the replacement of a portion of the Middle School roof, renovations to the Auditorium and door security/wireless technology upgrades.

In 2013-2014, the General Fund recorded a deficit of \$ 77,001. The unassigned fund balance closed at \$ 4,035,941, which is 18.4% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2014, the District is in compliance with that fund balance goal.

GENERAL FUND

General Fund Budgetary Highlights

Actual revenues were \$ 51,395 over the final budget, a 0.24% variance. Actual expenditures were \$ 256,360 under budget, a 1.16% variance. The variance between original and final budgeted revenue amounts was due to funds received additional ADM's for general education aid and special education cross subsidy aid. The expenditure budget variance is due to decreased costs for health and safety projects, deferred maintenance projects and unspent budgeted dollars for retiree insurance.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by \$ 225,317 in 2013-2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to \$ 28,322,106 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 4 of this report.

CAPITAL ASSETS - GOVERNMENTAL ACTIVITIES

Table A-6

	2014	2013	Percentage Change
Land	\$ 1,022,151	\$ 1,022,151	0.00%
Land Improvements	1,574,775	1,574,775	0.00%
Buildings	37,473,707	37,212,069	0.70%
Equipment	2,012,567	1,874,378	7.37%
Capital Lease	3,178,525	3,178,525	0.00%
Construction in Progress	-	-	0.00%
Less Accumulated Depreciation	(16,939,619)	(15,954,892)	6.17%
Total	<u>\$ 28,322,106</u>	<u>\$ 28,907,006</u>	<u>-2.02%</u>

Long-Term Liabilities

At year-end, the District had \$ 23,001,517 in total long-term debt, a decrease of 6.48% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 5 of the financial statements.)

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014**

LONG-TERM LIABILITIES

Table A-7

	2014	2013	Percentage Change
General Obligation Bonds Payable	\$ 20,840,000	\$ 22,235,000	-6.27%
Capital Lease Payable	2,130,037	2,328,088	-8.51%
Compensated Absences Payable	31,480	31,355	0.40%
Total	<u>\$ 23,001,517</u>	<u>\$ 24,594,443</u>	<u>-6.48%</u>

The biggest factor in the decrease in long-term liabilities is due to the semi-annual bond payments and monthly capital lease payments that are decreasing the district’s overall debt obligation.

FACTORS BEARING ON THE DISTRICT’S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. With minimal increases on the basic general education formula allowances for the past couple of biennium’s and a 1.5% increase for the 2013-2014 and the 2014-2015 school years, along with an additional \$ 25 added to the formula in 2014-2015, school districts across the State of Minnesota are forced to utilize the voter-approved excess levy process to fund basic current operations or face significant budget reductions. The excess levy referendum state average at the time of this writing is approximately \$ 770 per student. In the 2013 Pay 2014 levy year, the state legislature reclassified \$ 424 of the district’s operating levy to Location Equity. The District currently has authority to levy \$ 655.03 but the District currently only levies for \$ 335.00 per student, which is \$ 435 below the state average. The additional \$ 320.03 operating referendum levy that was approved by the voters was to be used to operate a new building that was to be built. The building bond question failed, and the School Board has chosen to under levy each year, thus the District only levies for the 2012 voter-approved excess operating referendums of \$ 2.86 and \$ 332.14.

The District had a healthy General fund balance at the end of the 2013-2014 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning. Enrollment will continue to be monitored; enrollment in 2013-2014 increased by 27 students from 2012-2013, and the District is projecting enrollment to increase by 15 students in the 2014-2015 school year. Finally, the District will continue to strive to achieve its mission statement of “Educational Excellence is our Foremost Goal”.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF NET POSITION
June 30, 2014**

	Governmental Activities
ASSETS	
Cash and Investments (Including Cash Equivalents)	\$ 10,092,797
Current Property Taxes Receivable	2,421,040
Delinquent Property Taxes Receivable	102,668
Accounts Receivable	22,117
Interest Receivable	3,071
Due from Department of Education	1,837,754
Due from Federal Government through Department of Education	50,769
Due from Other Minnesota School Districts	64,128
Due from Other Governmental Units	30,166
Inventory	32,902
Prepaid Items	137,272
Equity Interest in Joint Venture	351,668
Net Other Post Employment Benefits (OPEB) Asset	27,395
Capital Assets, Not being Depreciated:	
Land	1,022,151
Capital Assets, Net of Accumulated Depreciation:	
Land Improvements	739,285
Buildings	25,842,177
Machinery and Equipment	718,493
	\$ 43,495,853
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 172,816
Salaries and Benefits Payable	2,136,970
Interest Payable	361,516
Due to Other Minnesota School Districts	51,880
Due to Other Governmental Units	60,837
Unearned Revenue	96,690
Bonds Payable:	
Payable Within One Year	1,445,000
Payable After One Year	19,395,000
Capital Lease Payable:	
Payable Within One Year	214,850
Payable After One Year	1,915,187
Vacation Payable:	
Payable Within One Year	31,480
Total Liabilities	25,882,226
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	4,730,348
Net Position	
Net Investment in Capital Assets	5,352,069
Restricted for:	
Debt Service	190,686
Other Purposes	2,208,051
Unrestricted	5,132,473
Total Net Position	12,883,279
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 43,495,853

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					Governmental Activities
Administration	\$ 1,090,016	\$ -	\$ 81,999	\$ -	\$ (1,008,017)
District Support Services	1,112,722	303	9,546	-	(1,102,873)
Elementary and Secondary Regular Instruction	10,827,650	345,860	519,203	23,068	(9,939,519)
Vocational Education Instruction	317,703	-	-	-	(317,703)
Special Education Instruction	2,943,568	16,672	1,887,509	-	(1,039,387)
Instructional Support Services	989,538	-	13,885	-	(975,653)
Pupil Support Services	1,929,329	-	52,870	-	(1,876,459)
Sites and Buildings	2,074,850	9,600	422,091	-	(1,643,159)
Fiscal and Other Fixed Cost Programs	94,862	-	-	-	(94,862)
Food Service	968,887	639,523	311,841	-	(17,523)
Community Education and Services	2,136,698	1,782,409	152,912	-	(201,377)
Unallocated Depreciation	809,823	-	-	-	(809,823)
Interest and Fiscal Charges on Long-Term Debt	1,005,379	-	-	-	(1,005,379)
Total Governmental Activities	\$ 26,301,025	\$ 2,794,367	\$ 3,451,856	\$ 23,068	(20,031,734)
General Revenues					
Taxes:					
					1,602,346
					88,269
					2,071,190
					16,889,947
					24,737
					13,135
					<u>20,689,624</u>
					657,890
					<u>12,225,389</u>
					Change in Net Position
					Net Position - Beginning
					<u>\$ 12,883,279</u>
					Net Position - Ending

INDEPENDENT SCHOOL DISTRICT NO. 879

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 7,484,061	\$ 1,706,451	\$ 902,285	\$ 10,092,797
Current Property Taxes Receivable	1,218,913	1,127,277	74,850	2,421,040
Delinquent Property Taxes Receivable	56,313	42,792	3,563	102,668
Accounts Receivable	7,464	-	14,653	22,117
Interest Receivable	3,071	-	-	3,071
Due from Department of Education	1,827,630	1,313	8,811	1,837,754
Due from Federal Government through Department of Education	50,769	-	-	50,769
Due from Other Minnesota School Districts	54,167	-	9,961	64,128
Due from Other Governmental Units	28,448	-	1,718	30,166
Inventory	13,636	-	19,266	32,902
Prepaid Items	136,662	-	610	137,272
	<u>\$ 10,881,134</u>	<u>\$ 2,877,833</u>	<u>\$ 1,035,717</u>	<u>\$ 14,794,684</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 155,198	\$ -	\$ 17,618	\$ 172,816
Salaries and Benefits Payable	1,990,213	-	146,757	2,136,970
Due to Other Minnesota School Districts	51,880	-	-	51,880
Due to Other Governmental Units	58,997	-	1,840	60,837
Unearned Revenue	536	-	96,154	96,690
Total Liabilities	<u>2,256,824</u>	<u>-</u>	<u>262,369</u>	<u>2,519,193</u>
Deferred Inflows of Resources				
Property Taxes Levied for Subsequent Year's Expenditures	2,253,182	2,325,631	151,535	4,730,348
Unavailable Revenue - Delinquent Property Taxes	37,359	28,389	2,363	68,111
Total Deferred Inflows of Resources	<u>2,290,541</u>	<u>2,354,020</u>	<u>153,898</u>	<u>4,798,459</u>
Fund Balances				
Nonspendable	150,298	-	19,876	170,174
Restricted	1,582,438	523,813	599,574	2,705,825
Committed	171,553	-	-	171,553
Assigned	393,533	-	-	393,533
Unassigned	4,035,947	-	-	4,035,947
Total Fund Balances	<u>6,333,769</u>	<u>523,813</u>	<u>619,450</u>	<u>7,477,032</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,881,134</u>	<u>\$ 2,877,833</u>	<u>\$ 1,035,717</u>	<u>\$ 14,794,684</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
June 30, 2014**

Total Fund Balance - Governmental Funds \$ 7,477,032

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Equity interests in underlying capital assets of joint ventures are not reported in the
funds because they do not represent current assets.

Equity Interest in Joint Venture - Wright Technical Center 351,668

Capital assets used in governmental activities are not current financial resources and,
therefore, are not reported as assets in governmental funds.

Cost of Capital Assets 45,261,725
Less Accumulated Depreciation (16,939,619)

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable (20,840,000)
Capital Lease Payable (2,130,037)
Vacation Payable (31,480)
Net OPEB Asset 27,395

Delinquent property taxes receivables will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds.

68,111

Governmental funds do not report a liability for accrued interest on bonds
and capital loans until due and payable.

(361,516)

Total Net Position - Governmental Activities

\$ 12,883,279

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Property Taxes	\$ 1,607,111	\$ 2,089,875	\$ 90,109	\$ 3,787,095
Other Local and County Revenues	990,967	2,008	1,739,913	2,732,888
Revenue from State Sources	18,847,368	13,121	223,941	19,084,430
Revenue from Federal Sources	360,743	-	270,848	631,591
Sales and Other Conversion of Assets	9,230	-	738,971	748,201
Total Revenues	<u>21,815,419</u>	<u>2,105,004</u>	<u>3,063,782</u>	<u>26,984,205</u>
EXPENDITURES				
Current				
Administration	1,038,437	-	-	1,038,437
District Support Services	797,303	-	-	797,303
Elementary and Secondary Regular				
Instruction	10,744,750	-	-	10,744,750
Vocational Education Instruction	311,193	-	-	311,193
Special Education Instruction	2,926,065	-	-	2,926,065
Instructional Support Services	976,903	-	-	976,903
Pupil Support Services	1,921,077	-	-	1,921,077
Sites and Buildings	1,838,530	-	-	1,838,530
Fiscal and Other Fixed Cost Programs	94,862	-	-	94,862
Food Service	-	-	968,823	968,823
Community Education and Services	-	-	2,110,356	2,110,356
Capital Outlay				
Administration	25,984	-	-	25,984
District Support Services	323,592	-	-	323,592
Elementary and Secondary Regular				
Instruction	97,407	-	-	97,407
Special Education Instruction	17,304	-	-	17,304
Instructional Support Services	12,601	-	-	12,601
Sites and Buildings	476,774	-	-	476,774
Community Education and Services	-	-	20,556	20,556
Debt Service				
Principal	206,928	1,395,000	-	1,601,928
Interest and Fiscal Charges	91,551	935,321	-	1,026,872
Total Expenditures	<u>21,901,261</u>	<u>2,330,321</u>	<u>3,099,735</u>	<u>27,331,317</u>
Excess of Revenues				
Under Expenditures	(85,842)	(225,317)	(35,953)	(347,112)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	627	-	-	627
Proceeds from Capital Leases	8,214	-	-	8,214
Total Other Financing Sources (Uses)	<u>8,841</u>	<u>-</u>	<u>-</u>	<u>8,841</u>
Net Change in Fund Balances	(77,001)	(225,317)	(35,953)	(338,271)
FUND BALANCES				
Beginning of Year	<u>6,410,770</u>	<u>749,130</u>	<u>655,403</u>	<u>7,815,303</u>
End of Year	<u>\$ 6,333,769</u>	<u>\$ 523,813</u>	<u>\$ 619,450</u>	<u>\$ 7,477,032</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

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

Net Change in Fund Balances - Total Governmental Funds	\$ (338,271)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.	(7,130)
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Outlays	399,827
Depreciation Expense	(984,727)
Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(125)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	
Bonds Payable	1,395,000
Capital Lease Payable	206,265
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	22,156
Proceeds from the issuance of debt is recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.	
Capital Lease Payable	(8,214)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(1,601)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(25,290)
Change in Net Position - Governmental Activities	\$ 657,890

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Local Property Taxes	\$ 2,720,184	\$ 1,606,320	\$ 1,607,111	\$ 791
Other Local and County Revenues	406,300	993,890	990,967	(2,923)
Revenue from State Sources	17,403,800	18,793,841	18,847,368	53,527
Revenue from Federal Sources	337,377	360,743	360,743	-
Sales and Other Conversion of Assets	5,000	9,230	9,230	-
Total Revenues	20,872,661	21,764,024	21,815,419	51,395
EXPENDITURES				
Current				
Administration	1,028,233	1,032,512	1,038,437	5,925
District Support Services	683,566	793,662	797,303	3,641
Elementary and Secondary Regular Instruction	10,143,367	10,893,655	10,744,750	(148,905)
Vocational Education Instruction	318,114	313,104	311,193	(1,911)
Special Education Instruction	2,626,862	2,912,279	2,926,065	13,786
Instructional Support Services	1,392,421	1,019,311	976,903	(42,408)
Pupil Support Services	2,134,799	1,908,086	1,921,077	12,991
Sites and Buildings	1,947,657	1,923,503	1,838,530	(84,973)
Fiscal and Other Fixed Cost Programs	97,385	95,005	94,862	(143)
Capital Outlay				
Administration	7,500	27,201	25,984	(1,217)
District Support Services	386,664	323,849	323,592	(257)
Elementary and Secondary Regular Instruction	35,870	94,618	97,407	2,789
Special Education Instruction	-	17,559	17,304	(255)
Instructional Support Services	10,928	14,753	12,601	(2,152)
Pupil Support Services	2,900	-	-	-
Sites and Buildings	420,000	490,042	476,774	(13,268)
Debt Service				
Principal	205,285	206,929	206,928	(1)
Interest and Fiscal Charges	91,129	91,553	91,551	(2)
Total Expenditures	21,532,680	22,157,621	21,901,261	(256,360)
Excess of Revenues				
Under Expenditures	(660,019)	(393,597)	(85,842)	307,755
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	627	627	-
Proceeds from Capital Leases	-	8,214	8,214	-
Total Other Financing Sources (Uses)	-	8,841	8,841	-
Net Change in Fund Balances	\$ (660,019)	\$ (384,756)	(77,001)	\$ 307,755
FUND BALANCE				
Beginning of Year			6,410,770	
End of Year			\$ 6,333,769	

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014**

	<u>Private Purpose Trust Fund</u>
ASSETS	
Current:	
Cash and Investments	\$ 29,790
Other Receivables	<u>1,215</u>
Total Assets	<u><u>\$ 31,005</u></u>
NET POSITION	
Held in Trust for Scholarships	<u><u>\$ 31,005</u></u>

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2014**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Other Local Revenues	\$ 56,382
DEDUCTIONS	
Pupil Support Services	<u>56,481</u>
Change in Net Position	(99)
NET POSITION	
Beginning of Year	<u>31,104</u>
End of Year	<u><u>\$ 31,005</u></u>

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INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

Joint Venture

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

B. Basic Financial Statement Information

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds and the fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Agency and Trust Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

INDEPENDENT SCHOOL DISTRICT NO. 879

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services.

Fiduciary Fund:

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes the District 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, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust Investment Shares portfolio are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pools are the same as the value of the pool shares.

Minnesota Statutes 118A require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's policy states all deposits must be in compliance with *Minnesota Statutes* 118A.03 for any amounts exceeding FDIC, SAIF, BIF, FCUA or other federal deposit coverage.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will attempt to diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Custodial Credit Risk – Investments: For investments, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2013, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2014. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

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

I. Property Taxes

The District is located in Wright and Hennepin Counties.

Property tax levies are certified to the County Auditors 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 Counties generally remits taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 50 years for land improvements, buildings, machinery and equipment and vehicles.

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

K. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and fund financial statements 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 a future period(s) 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

M. Compensated Absences

Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

N. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2014.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaids and inventory.
- **Restricted Fund Balances** – These amounts are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – The government’s highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- **Assigned Fund Balances** – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.
- **Minimum Fund Balance Policy** – The District will strive to maintain a minimum unassigned General Fund balance of 12% of operating expenditures.

P. Net Position

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

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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds.
4. Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

Budgetary control for governmental funds is established by each fund's total appropriations. Expenditures exceeded appropriations in the following funds:

	<u>Budget</u>	<u>Actual</u>
Food Service	\$ 952,284	\$ 968,823
Community Service	2,084,957	2,130,912

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk: As of June 30, 2014, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits as of June 30, 2014 were comprised of checking accounts with a carrying amount of \$ 940,562 and a book balance of \$ 808,611.

INDEPENDENT SCHOOL DISTRICT NO. 879

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of June 30, 2014, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u> <u>Weighted Maturity (Years)</u>	<u>Moody's/S&P Ratings</u> <u>Rating</u>
MSDLAF	\$ 1,645,555	N/A	AAA
MSDLAF Max	1,680,462	N/A	AAA
MNTrust Investment Share Portfolio	1,251,139	N/A	Aaa
Negotiable Certificates of Deposit	<u>4,736,170</u>	0.81	N/A
 Total Investments	 <u>\$ 9,313,326</u>		

Credit Risk: The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

Concentration of Credit Risk: The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. At June 30, 2014, the District held no investments in excess of five percent of total investment.

Summary of deposits and investments as of June 30, 2014:

Deposits (Note 3.A.)	\$ 808,611
Petty Cash	650
Investments (Note 3.B.)	<u>9,313,326</u>
 Total Deposits and Investments	 <u><u>\$ 10,122,587</u></u>

Deposits and investments are presented in the June 30, 2014 basic financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 10,092,797
 Statement of Fiduciary Net Position:	
Cash and Investments - Private Purpose Trust Fund	<u>29,790</u>
 Total Deposits and Investments	 <u><u>\$ 10,122,587</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,022,151	\$ -	\$ -	\$ 1,022,151
Capital Assets being Depreciated:				
Improvements	1,574,775	-	-	1,574,775
Buildings	40,390,594	261,638	-	40,652,232
Equipment	1,874,378	138,189	-	2,012,567
Total Capital Assets being Depreciated	<u>43,839,747</u>	<u>399,827</u>	<u>-</u>	<u>44,239,574</u>
Less Accumulated Depreciation for:				
Improvements	825,393	10,097	-	835,490
Buildings	13,993,245	816,810	-	14,810,055
Equipment	1,136,254	157,820	-	1,294,074
Total Accumulated Depreciation	<u>15,954,892</u>	<u>984,727</u>	<u>-</u>	<u>16,939,619</u>
Total Capital Assets being Depreciated, Net	<u>27,884,855</u>	<u>(584,900)</u>	<u>-</u>	<u>27,299,955</u>
Governmental Activities, Capital Assets, Net	<u>\$ 28,907,006</u>	<u>\$ (584,900)</u>	<u>\$ -</u>	<u>\$ 28,322,106</u>

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

Administration	\$ 25,449
Elementary and Secondary Regular Instruction	22,666
Pupil Support Services	8,218
Sites and Buildings	107,129
Community Service	11,442
Unallocated	<u>809,823</u>
 Total Depreciation Expense	 <u>\$ 984,727</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
G.O. School Refunding Bonds, Series 2005	10/05/05	4.00%-4.375%	\$ 18,810,000	02/01/25	\$ 15,630,000	\$ 1,140,000
G.O. Alternative Facilities Bonds, Series 2008A	04/23/08	3.50%-4.625%	4,865,000	02/01/28	4,095,000	150,000
G.O. Capital Facilities Bonds, Series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	400,000	95,000
G.O. Bonds, Series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	<u>715,000</u>	<u>60,000</u>
Total G.O. Bonds					<u>20,840,000</u>	<u>1,445,000</u>
Capital Leases					2,130,037	214,850
Vacation Payable					<u>31,480</u>	<u>31,480</u>
Total all Long-Term Liabilities					<u>\$ 23,001,517</u>	<u>\$ 1,691,330</u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The bond obligations are paid from the Debt Service Fund. Severance, vacation and capital leases are paid from the General Fund.

B. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-Term Liabilities:				
G.O. Bonds	\$ 22,235,000	\$ -	\$ 1,395,000	\$ 20,840,000
Capital Leases	2,328,088	8,214	206,265	2,130,037
Vacation Payable	<u>31,355</u>	<u>125</u>	<u>-</u>	<u>31,480</u>
Total Long-Term Liabilities	<u>\$ 24,594,443</u>	<u>\$ 8,339</u>	<u>\$ 1,601,265</u>	<u>\$ 23,001,517</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 5 – LONG-TERM DEBT

C. Debt Payment Schedule

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds		Total
	Principal	Interest	
2015	\$ 1,445,000	\$ 878,318	\$ 2,323,318
2016	1,520,000	822,126	2,342,126
2017	1,560,000	762,623	2,322,623
2018	1,635,000	700,573	2,335,573
2019	1,705,000	635,540	2,340,540
2020-2024	9,665,000	2,034,921	11,699,921
2025-2028	3,310,000	261,119	3,571,119
Total	<u>\$ 20,840,000</u>	<u>\$ 6,095,220</u>	<u>\$ 26,935,220</u>

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of \$ 23,950 for each of the 15 years of the agreement.

On January 25, 2013 the District entered into a capital lease agreement for copiers with US Bank Equipment Finance. The capital lease agreement includes monthly principal and interest payments of \$ 1,100 for each of the five years of the agreement.

On June 24, 2013, the District entered into a capital lease agreement for a postage meter machine with MailFinance. The capital lease includes monthly principal and interest payments of \$ 172 for each of the five years of the agreement.

The future of the minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	
2015	\$ 298,479
2016	298,479
2017	298,478
2018	294,034
2019	283,082
2020-2023	1,061,561
Total Lease Payments	<u>2,534,113</u>
Less Amount Representing Interest	<u>404,076</u>
Present Value of Capital Lease	<u>\$ 2,130,037</u>

The assets acquired with the capital leases have a cost of \$ 3,246,472 and accumulated depreciation of \$ 403,289 for a net value of \$ 2,843,183.

INDEPENDENT SCHOOL DISTRICT NO. 879

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 –FUND BALANCES/NET POSITION

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Nonspendable for:				
Inventory	\$ 13,636	\$ -	\$ 19,266	\$ 32,902
Prepays Items	136,662	-	610	137,272
Total Nonspendable	<u>150,298</u>	<u>-</u>	<u>19,876</u>	<u>170,174</u>
Restricted/Reserved for:				
Staff Development	88,917	-	-	88,917
Deferred Maintenance	360,537	-	-	360,537
Health and Safety	4,549	-	-	4,549
Operating Capital	1,128,435	-	-	1,128,435
Debt Service	-	523,813	-	523,813
Food Service	-	-	172,689	172,689
Community Education	-	-	426,367	426,367
Early Childhood and Family Education	-	-	(3,800)	(3,800)
Adult Basic Education	-	-	966	966
Community Service	-	-	3,352	3,352
Total Restricted/Reserved	<u>1,582,438</u>	<u>523,813</u>	<u>599,574</u>	<u>2,705,825</u>
Committed for:				
Separation/Retirement Benefits	171,553	-	-	171,553
Assigned for:				
Donated Funds	223,343	-	-	223,343
Student Activities	18,604	-	-	18,604
Q Comp	151,586	-	-	151,586
Total Assigned	<u>393,533</u>	<u>-</u>	<u>-</u>	<u>393,533</u>
Unassigned	<u>4,035,947</u>	<u>-</u>	<u>-</u>	<u>4,035,947</u>
Total Reserved Fund Balance	<u>\$ 6,333,769</u>	<u>\$ 523,813</u>	<u>\$ 619,450</u>	<u>\$ 7,477,032</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 –FUND BALANCES/NET POSITION

Fund Equity (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (Minnesota Statutes 122A.61, subdivision 1).

Restricted/Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1. para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted for Community Service – This balance represents the accumulation of the activity to provide the community service program.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 – FUND BALANCES/NET POSITION

Fund Equity (Continued)

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB) and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balances for unspent Q Comp dollars.

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total positive net position restricted for food service and community service.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to 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 follow.

Teachers' Retirement Association

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. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by *Minnesota Statutes* 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- Normal retirement at age 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 factors 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 Benefits:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% 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% per year.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.5% and 10.0%, respectively, of their annual covered salary during year 2013 as employee contributions. The TRA employer contribution rates are 6.5% for Coordinated Plan members and 10.5% for Basic Plan members during 2013. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2013 was approximately \$ 3.92 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2012 and 2011 were \$ 3.87 billion and \$ 3.84 billion, respectively. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 681,561, \$ 579,640 and \$ 538,959, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State Legislature approved employee and employer contribution rate increases to be phased in over a four year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5% 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%.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

GERF members belong to either the Coordinated 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.

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ended June 30, 2014, 2013 and 2012 were \$ 221,766, \$ 210,225, and \$ 203,286, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2014, the District contributed \$ 360,848 to the plan.

As of June 30, 2012, the last valuation date, there were approximately 34 retirees receiving health benefits from the District's health plan. The plan has a total of 263 active participants and dependents. Of that total, 229 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Costs Obligation

The District's annual other post employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of 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 table on the following page shows the components of the District's annual OPEB costs for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Costs Obligation (Continued)

ARC	\$ 362,265
Interest on Net OPEB Obligation	(1,305)
Adjustment to ARC	1,489
Annual OPEB Cost	<u>362,449</u>
Contributions Made	<u>(360,848)</u>
Increase in Net OPEB Obligation	1,601
Net OPEB Obligation - Beginning of Year	<u>(28,996)</u>
Net OPEB Obligation - End of Year	<u><u>\$ (27,395)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the past three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/14	\$ 362,449	\$ 360,848	100%	\$ (27,395)
06/30/13	361,388	435,682	121%	(28,996)
06/30/12	395,678	406,076	103%	45,298

D. Funded Status and Funding Progress

As of the July 1, 2012 actuarial study, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,427,975 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,427,975. The covered payroll (annual payroll of active employees covered by the plan) was \$ 9,892,804, and the ratio of the UAAL to the covered payroll was 34.7%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care 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 – Other Post Employment Benefits, presented as required supplementary information following the Notes to the 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

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, consistent with the long-term perspective of the calculations.

At the July 1, 2012 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8% initially, reduced incrementally to an ultimate rate of 5% after 6 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 30 years.

NOTE 9 – COMMITMENTS

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

NOTE 10 – GASB STANDARD ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
07/01/08	\$ -	\$ 4,123,809	\$ 4,123,809	0%	\$ 10,246,358	40.25%
07/01/10	-	3,817,291	3,817,291	0%	9,671,203	39.47%
07/01/12	-	3,427,975	3,427,975	0%	9,892,804	34.65%

* This Schedule was implemented in 2009 and the actuarial valuation has been updated twice, and therefore, contains only three years of data. See Note 9 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	Special Revenue Funds		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 215,535	\$ 686,750	\$ 902,285
Current Property Taxes Receivable	-	74,850	74,850
Delinquent Property Taxes Receivable	-	3,563	3,563
Accounts Receivable	1,790	12,863	14,653
Due from Department of Education	-	8,811	8,811
Due from Other Minnesota School Districts	-	9,961	9,961
Due from Other Governmental Units	-	1,718	1,718
Inventory	15,138	4,128	19,266
Prepaid Items	-	610	610
	<u>\$ 232,463</u>	<u>\$ 803,254</u>	<u>\$ 1,035,717</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 606	\$ 17,012	\$ 17,618
Salaries and Benefits Payable	18,779	127,978	146,757
Due to Other Governmental Units	-	1,840	1,840
Unearned Revenue	25,251	70,903	96,154
Total Liabilities	<u>44,636</u>	<u>217,733</u>	<u>262,369</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year's Expenditures	-	151,535	151,535
Unavailable Revenue - Delinquent Property Taxes	-	2,363	2,363
Total Deferred Inflows of Resources	<u>-</u>	<u>153,898</u>	<u>153,898</u>
Fund Balances			
Nonspendable	15,138	4,738	19,876
Restricted	172,689	426,885	599,574
Total Fund Balances	<u>187,827</u>	<u>431,623</u>	<u>619,450</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 232,463</u>	<u>\$ 803,254</u>	<u>\$ 1,035,717</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2014

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
REVENUES			
Local Property Taxes	\$ -	\$ 90,109	\$ 90,109
Other Local and County Revenues	2,205	1,737,708	1,739,913
Revenue from State Sources	39,146	184,795	223,941
Revenue from Federal Sources	270,848	-	270,848
Sales and Other Conversion of Assets	639,523	99,448	738,971
Total Revenues	951,722	2,112,060	3,063,782
EXPENDITURES			
Current			
Food Service	968,823	-	968,823
Community Education and Services	-	2,110,356	2,110,356
Capital Outlay			
Community Education and Services	-	20,556	20,556
Total Expenditures	968,823	2,130,912	3,099,735
Net Change in Fund Balances	(17,101)	(18,852)	(35,953)
FUND BALANCES			
Beginning of Year	204,928	450,475	655,403
End of Year	\$ 187,827	\$ 431,623	\$ 619,450

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2014**

	2014			Variance with Final Budget - Over (Under)	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Taxes					
Property Tax Levy	\$ 2,733,684	\$ 2,719,450	\$ 2,719,438	\$ (12)	\$ 2,117,494
County Apportionment	70,000	38,470	38,466	(4)	69,622
Miscellaneous Taxes	16,500	23,800	23,799	(1)	37,368
Property Tax Shift	(100,000)	(1,175,400)	(1,174,592)	808	319,128
Total Local Property Taxes	2,720,184	1,606,320	1,607,111	791	2,543,612
Other Local and County Revenues					
Tuition and Fees	265,205	293,777	292,896	(881)	352,244
Interest	7,000	9,000	9,767	767	8,403
Other Local Revenues	134,095	691,113	688,304	(2,809)	536,960
Total Other Local and County Revenues	406,300	993,890	990,967	(2,923)	897,607
Revenue from State Sources					
General Education Aid	15,590,000	15,629,316	15,656,731	27,415	15,126,688
Endowment Fund	65,000	66,962	66,896	(66)	69,681
Special Education Aid	1,400,000	1,636,100	1,662,685	26,585	1,453,690
Educational Agricultural and Homestead Credit	4,500	4,637	4,637	-	4,768
Other Aids	344,300	1,456,826	1,456,419	(407)	(81,590)
Total Revenue from State Sources	17,403,800	18,793,841	18,847,368	53,527	16,573,237
Revenue from Federal Sources					
Title I	64,557	64,681	64,681	-	65,674
Special Education	223,420	222,653	222,653	-	199,760
Other	49,400	73,409	73,409	-	51,839
Total Revenue from Federal Source	337,377	360,743	360,743	-	317,273
Sales and Other Conversion of Assets					
Local Sales and Other Conversion of Assets	5,000	9,230	9,230	-	10,922
Total Revenues	20,872,661	21,764,024	21,815,419	51,395	20,342,651
EXPENDITURES					
Current:					
Administration					
Salaries and Wages	719,090	713,596	720,752	7,156	699,082
Employee Benefits	269,619	268,934	267,461	(1,473)	243,078
Purchased Services	9,900	11,163	10,643	(520)	31,762
Supplies and Materials	10,430	22,457	23,972	1,515	45,612
Capital Expenditures	7,500	27,201	25,984	(1,217)	4,001
Other Expenditures	19,194	16,362	15,609	(753)	13,248
Total Administration	1,035,733	1,059,713	1,064,421	4,708	1,036,783
District Support Services					
Salaries and Wages	314,503	321,453	326,382	4,929	220,751
Employee Benefits	160,237	163,082	161,910	(1,172)	96,962
Purchased Services	163,593	250,153	249,989	(164)	154,329
Supplies and Materials	18,400	33,271	33,225	(46)	8,109
Capital Expenditures	386,664	323,849	323,592	(257)	6,824
Other Expenditures	26,833	25,703	25,797	94	24,244
Total District Support Services	1,070,230	1,117,511	1,120,895	3,384	511,219

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2014**

	2014			Variance with Final Budget - Over (Under)	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Elementary and Secondary Regular Instruction					
Salaries and Wages	\$ 6,963,739	\$ 7,125,304	\$ 7,098,281	\$ (27,023)	\$ 6,709,040
Employee Benefits	2,527,488	2,636,698	2,594,128	(42,570)	2,422,689
Purchased Services	387,236	542,808	513,018	(29,790)	558,798
Supplies and Materials	232,851	562,701	513,907	(48,794)	638,512
Capital Expenditures	35,870	94,618	97,407	2,789	248,696
Other Expenditures	32,053	26,144	25,416	(728)	52,165
Total Elementary and Secondary Regular Instruction	10,179,237	10,988,273	10,842,157	(146,116)	10,629,900
Vocational Education Instruction					
Salaries and Wages	92,476	93,996	93,451	(545)	67,448
Employee Benefits	36,028	38,678	37,611	(1,067)	25,442
Purchased Services	183,200	176,920	176,777	(143)	169,753
Supplies and Materials	6,410	3,510	3,354	(156)	2,549
Total Vocational Education Instruction	318,114	313,104	311,193	(1,911)	265,192
Special Education Instruction					
Salaries and Wages	1,692,043	1,889,486	1,912,677	23,191	1,719,558
Employee Benefits	635,709	733,365	733,468	103	627,290
Purchased Services	196,920	206,884	206,553	(331)	171,758
Supplies and Materials	94,690	66,696	57,519	(9,177)	42,967
Capital Expenditures	-	17,559	17,304	(255)	10,450
Other Expenditures	7,500	15,848	15,848	-	11,610
Total Special Education Instruction	2,626,862	2,929,838	2,943,369	13,531	2,583,633
Instructional Support Services					
Salaries and Wages	611,640	677,029	634,544	(42,485)	482,259
Employee Benefits	212,113	221,819	223,540	1,721	171,153
Purchased Services	150,689	60,103	60,461	358	6,763
Supplies and Materials	395,773	45,260	43,171	(2,089)	43,187
Capital Expenditures	10,928	14,753	12,601	(2,152)	20,888
Other Expenditures	22,206	15,100	15,187	87	22,757
Total Instructional Support Services	1,403,349	1,034,064	989,504	(44,560)	747,007
Pupil Support Services					
Salaries and Wages	322,045	190,605	194,148	3,543	207,537
Employee Benefits	419,721	306,661	315,907	9,246	332,909
Purchased Services	1,382,250	1,394,235	1,394,186	(49)	1,353,931
Supplies and Materials	9,010	14,812	14,898	86	17,167
Capital Expenditures	2,900	-	-	-	1,800
Other Expenditures	1,773	1,773	1,938	165	2,088
Total Pupil Support Services	2,137,699	1,908,086	1,921,077	12,991	1,915,432

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2014**

	2014			Variance with Final Budget - Over (Under)	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Sites and Buildings					
Salaries and Wages	\$ 663,747	\$ 633,910	\$ 613,752	\$ (20,158)	\$ 639,332
Employee Benefits	333,197	350,870	319,433	(31,437)	334,542
Purchased Services	662,410	657,088	634,694	(22,394)	576,897
Supplies and Materials	275,900	268,725	257,741	(10,984)	252,572
Capital Expenditures	420,000	490,042	476,774	(13,268)	80,081
Other Expenditures	12,403	12,910	12,910	-	15,079
Total Sites and Buildings	<u>2,367,657</u>	<u>2,413,545</u>	<u>2,315,304</u>	<u>(98,241)</u>	<u>1,898,503</u>
Fiscal and Other Fixed Cost Programs					
Purchased Services	97,385	95,005	94,862	(143)	92,345
Debt Service					
Principal	205,285	206,929	206,928	(1)	190,002
Interest and Fiscal Charges	91,129	91,553	91,551	(2)	97,524
Total Debt Service	<u>296,414</u>	<u>298,482</u>	<u>298,479</u>	<u>(3)</u>	<u>287,526</u>
Total Expenditures	<u>21,532,680</u>	<u>22,157,621</u>	<u>21,901,261</u>	<u>(256,360)</u>	<u>19,967,540</u>
Excess of Revenues Over (Under) Expenditures	(660,019)	(393,597)	(85,842)	307,755	375,111
OTHER FINANCING SOURCES					
Proceeds from Sale of Capital Assets	-	627	627	-	495
Proceeds from Capital Leases	-	8,214	8,214	-	59,733
Total Other Financing Sources	<u>-</u>	<u>8,841</u>	<u>8,841</u>	<u>-</u>	<u>60,228</u>
Net Change in Fund Balances	<u>\$ (660,019)</u>	<u>\$ (384,756)</u>	<u>(77,001)</u>	<u>\$ 307,755</u>	<u>435,339</u>
FUND BALANCE					
Beginning of Year			<u>6,410,770</u>		<u>5,975,431</u>
End of Year			<u>\$ 6,333,769</u>		<u>\$ 6,410,770</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DETAIL FOOD SERVICE FUND
For the Year Ended June 30, 2014**

	2014			Variance with Final Budget - Over (Under)	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Other Local and County Revenues					
Interest	\$ 300	\$ 400	\$ 358	\$ (42)	\$ 378
Other Local Revenues	1,500	1,848	1,847	(1)	2,421
Total Other Local and County Revenues	1,800	2,248	2,205	(43)	2,799
Revenue from State Sources					
Lunch Program Aid	39,965	39,308	39,146	(162)	38,360
Revenue from Federal Sources					
Lunch Aid Program	203,339	203,605	203,340	(265)	200,087
Food Distribution Program	62,000	67,509	67,508	(1)	71,173
Total Revenue from Federal Sources	265,339	271,114	270,848	(266)	271,260
Sales and Other Conversion of Assets					
Sale of Food	631,133	639,866	639,523	(343)	628,693
Total Revenues	938,237	952,536	951,722	(814)	941,112
EXPENDITURES					
Current:					
Food Service					
Salaries and Wages	345,670	336,018	337,255	1,237	315,147
Employee Benefits	143,790	139,055	145,935	6,880	128,830
Purchased Services	30,300	35,146	36,094	948	32,849
Supplies and Materials	412,874	437,280	444,757	7,477	415,812
Other Expenditures	5,351	4,785	4,782	(3)	5,406
Total Expenditures	937,985	952,284	968,823	16,539	898,044
Net Change in Fund Balance	\$ 252	\$ 252	(17,101)	\$ (17,353)	43,068
FUND BALANCE					
Beginning of Year			204,928		161,860
Ending of Year			\$ 187,827		\$ 204,928

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DETAIL COMMUNITY SERVICE FUND
For the Year Ended June 30, 2014**

	2014			Variance with Final Budget - Over (Under)	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Local Property Taxes					
Property Tax Levy	\$ 176,225	\$ 175,939	\$ 174,156	\$ (1,783)	\$ 212,227
Miscellaneous Taxes	-	286	286	-	44
Property Tax Shift	(20,000)	(84,350)	(84,333)	17	(17,255)
Total Local Property Taxes	156,225	91,875	90,109	(1,766)	195,016
Other Local and County Revenues					
Tuition and Fees	1,564,868	1,680,613	1,625,921	(54,692)	1,618,417
Interest	1,000	1,000	1,002	2	1,198
Other Local Revenues	81,000	103,021	110,785	7,764	88,289
Total Other Local and County Revenues	1,646,868	1,784,634	1,737,708	(46,926)	1,707,904
Revenue from State Sources					
Educational Agricultural and Homestead Credit	1,300	1,300	1,093	(207)	1,317
Other Aids	120,999	187,336	183,702	(3,634)	117,848
Total Revenue from State Sources	122,299	188,636	184,795	(3,841)	119,165
Sales and Other Conversion of Assets					
Sale of Food	-	-	99,448	99,448	-
Total Sales and Other Conversion of Assets	-	-	99,448	99,448	-
Total Revenues	1,925,392	2,065,145	2,112,060	46,915	2,022,085
EXPENDITURES					
Community Education and Services					
Salaries and Wages	1,183,047	1,266,548	1,312,643	46,095	1,252,007
Employee Benefits	304,570	315,128	328,550	13,422	304,076
Purchased Services	283,717	286,554	277,840	(8,714)	285,791
Supplies and Materials	145,783	183,744	180,557	(3,187)	161,091
Capital Expenditures	14,500	27,253	20,556	(6,697)	19,160
Other Expenditures	4,784	5,730	10,766	5,036	1,767
Total Expenditures	1,936,401	2,084,957	2,130,912	45,955	2,023,892
Net Change in Fund Balance	\$ (11,009)	\$ (19,812)	(18,852)	\$ 960	(1,807)
FUND BALANCE					
Beginning of Year			450,475		452,282
End of Year			\$ 431,623		\$ 450,475

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF CHANGES IN AGENCY FUND

ASSETS AND LIABILITIES

For the Year Ended June 30, 2014

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2014</u>
ASSETS				
Cash and Investments	<u>\$ 1,792</u>	<u>\$ 12,036</u>	<u>\$ 13,828</u>	<u>\$ -</u>
LIABILITIES				
Accounts Payable	<u>\$ 1,792</u>	<u>\$ 12,036</u>	<u>\$ 13,828</u>	<u>\$ -</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2014

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 21,815,419	\$ 21,815,419	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	21,901,261	21,901,262	(1)	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	150,298	150,298	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	88,917	88,917	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	360,537	360,537	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	4,549	4,549	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	1,128,435	1,128,435	-	Total Expenditures	\$ 2,105,004	\$ 2,105,005	\$ (1)
426 \$ 25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	2,330,321	2,330,323	(2)
428 Learning and Development	-	-	-	<i>Restricted/Reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted Fund Balance	523,813	523,812	1
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
446 First Grade Preparedness	-	-	-				
448 Achievement and Integration	-	-	-	08 TRUST FUND			
449 Safe School Crime	-	-	-	Total Revenue	\$ 56,382	\$ 56,382	\$ -
450 Transition for Pre-kindergarten	-	-	-	Total Expenditures	56,481	56,481	-
451 QZAB and QSCB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned Fund Balance (Net Position)	31,005	31,005	-
453 Unfunded Severance and	-	-	-				
<i>Restricted:</i>				20 INTERNAL SERVICE FUND			
464 Restricted Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	-	-	-
418 Committed for Separation	171,553	171,553	-	<i>Unassigned:</i>			
461 Committed	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Assigned:</i>							
462 Assigned Fund Balance	393,533	393,534	(1)	25 OPEB REVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue	\$ -	\$ -	\$ -
422 Unassigned Fund Balance (Net Position)	4,035,947	4,035,941	6	Total Expenditures	-	-	-
				<i>Unassigned:</i>			
02 FOOD SERVICES FUND				422 Unassigned Fund Balance (Net Position)	-	-	-
Total Revenue	\$ 951,722	\$ 951,722	\$ -				
Total Expenditures	968,823	968,823	-	45 OPEB IRREVOCABLE TRUST			
<i>Nonspendable:</i>				Total Revenue	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	15,138	15,138	-	Total Expenditures	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Restricted:</i>							
464 Restricted Fund Balance	172,689	172,688	1	47 OPEB DEBT SERVICE			
<i>Unassigned:</i>				Total Revenue	\$ -	\$ -	\$ -
463 Unassigned Fund Balance	-	-	-	Total Expenditures	-	-	-
				<i>Nonspendable:</i>			
04 COMMUNITY SERVICE FUND				460 Nonspendable Fund Balance	-	-	-
Total Revenue	\$ 2,112,060	\$ 2,112,062	\$ (2)	<i>Restricted:</i>			
Total Expenditures	2,130,912	2,130,914	(2)	464 Restricted Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable Fund Balance	4,738	4,737	1	463 Unassigned Fund Balance	-	-	-
<i>Restricted/Reserved:</i>							
426 \$ 25 Taconite	-	-	-				
431 Community Education	426,367	426,367	-				
432 ECFE	(3,800)	(3,800)	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	966	966	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	3,352	3,351	1				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 879

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

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	\$ 67,508
School Breakfast	10.553	10,639
Milk	10.556	3,301
Type A Lunch	10.555	<u>189,400</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		270,848
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A Cluster:		
Title I, Part A	84.010	64,681
Title II, Part A - Improving Teacher Quality	84.367	48,672
Through Meeker and Wright Special Education Cooperative No. 938:		
Special Education Cluster:		
Special Education	84.027	208,961
Discretionary Continuous Improvement Monitoring Process	84.027	999
Preschool Grants	84.173	<u>12,693</u>
Total Special Education Cluster		<u>222,653</u>
Total U.S. Department of Education		<u>336,006</u>
 Total Federal Expenditures		 <u><u>\$ 606,854</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.



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**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***

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ending 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 November 6, 2014.

Internal Control over Financial Reporting

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

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



Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified . Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified certain deficiencies in internal control described in the accompanying Schedule of Finding and Questioned Costs in Accordance with OMB *Circular A-133* that we consider to be significant deficiencies in internal control, Audit Finding 11-01.

Compliance and Other Matters

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

District's Response to the Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 result 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 communication is not suitable for any other purpose.

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
November 6, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 879, Delano, Minnesota with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost.

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 legal determination of the compliance of Independent School District No. 879.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 879 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on 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.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
November 6, 2014

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Findings 11-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
CFDA No.:	10.555, 10.553, 10.556
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2014, the District had a lack of segregation of accounting duties due to a limited number of office employees. Examples of the lack of segregation of accounting duties include but are not limited to:

- The District Accountant enters bank deposit amounts in Skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all accounting duties, the costs of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.
3. Official Responsible for Ensuring CAP
Matthew Schoen is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, 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. 879, Delano, Minnesota, as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements, and have issued our report thereon dated November 6, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. Our audit considered 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 Finding and Corrective Action Plan on Legal Compliance and Internal Control. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

A handwritten signature in cursive script that reads "Kern DeWenter, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
November 6, 2014

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF FINDING AND CORRECTIVE ACTION PLAN ON LEGAL COMPLIANCE June 30, 2013

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Abstain from Voting on Contracts with a Conflict of Interest

Minnesota Statutes 471.88, subd. 21 states that notwithstanding subdivision 1, a local school board may contract with a class of school district employees such as teachers or custodians where the spouse of a school board member is a member of the class of employees contracting with the school board and the employee spouse receives no special monetary or other benefit that is substantially different from the benefits that other members of the class receive under the employment contract. A school board invoking this exception must have a majority of disinterested school board members vote to approve the contract, direct the school board member spouse to abstain from voting to approve the contract, and publicly set out the essential facts of the contract at the meeting where the contract is approved.

During our audit, it was noted that one School Board Member whose spouse was employed at the District was subject to *Minnesota Statutes* 471.88, subd. 21 but did not abstain from voting during approval of the fiscal year 2013-2015 Delano Teachers Association contract.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Any School Board Member with a spouse employed at the District, subject to *Minnesota Statutes* 471.88, subd. 21, will be requested to abstain from voting to be in compliance with state statutes.
3. Official Responsible for Ensuring CAP
Matthew Schoen, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2015.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.