

INDEPENDENT SCHOOL DISTRICT NO. 22

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

INDEPENDENT SCHOOL DISTRICT NO. 22

TABLE OF CONTENTS

BOARD OF EDUCATION AND ADMINISTRATION	1	
INDEPENDENT AUDITOR’S REPORT	2	
MANAGEMENT’S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements:		
Statement of Net Position	22	
Statement of Activities.....	23	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	24	
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	25	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	26	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds	27	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	28	
Statement of Fiduciary Net Position.....	29	
Notes to the Financial Statements.....	31	
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Funding Progress – Other Post Employment Benefits	55	
SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – Nonmajor Governmental Funds.....	57	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	58	
Schedule of Property Tax and Market Value Information.....	59	
Uniform Financial Accounting and Reporting Standards Compliance Table	60	
Schedule of Expenditures of Federal Awards.....	61	
Notes to the Schedule of Expenditures of Federal Awards	62	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		63
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB <i>CIRCULAR A-133</i>		65
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>		67
REPORT ON LEGAL COMPLIANCE	70	

INDEPENDENT SCHOOL DISTRICT NO. 22
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2014

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Ladd Lyngaas	Chairperson	December 31, 2016
Dr. Thomas Seaworth	Vice Chairperson	December 31, 2016
Brenda Muckenhirn	Clerk	December 31, 2014
David Langworthy	Treasurer	December 31, 2014
Jackie Buboltz	Director	December 31, 2016
Glenn Gifford	Director	December 31, 2014
<u>Administration</u>		
Doug Froke	Superintendent	
Ryan Tangen	Business Manager	
Sue Eidenschink	Fiscal Affairs Coordinator	
Nancy Olson	Human Resources Director	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 22
Detroit Lakes, 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. 22, Detroit Lakes, 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 above 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. 22, Detroit Lakes, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 65

As discussed in Note 11 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 Expenditures 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 October 28, 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.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 28, 2014

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GASB passed a public accounting requirement in 1999 (GASB Statement No. 34) which makes public entity financial reporting more similar to that in the private sector. Public school accounting requirements must reflect fixed assets like land, buildings, equipment and related depreciation and long-term liabilities such as negotiated employee severance and health insurance.

Fiscal year 2002-2003 was the first year GASB Statement No. 34 applied to Independent School District No. 22 (the "District"). Fiscal year 2013-14 was the twelfth year.

It is important for readers to understand this audit, and those that will follow in future years, reflects comparative tests on fund balance and revenues verses expenditures just as prior audits have. In addition, the elements discuss changes in net position and systemic (or district-wide) methods of evaluating spending and variances between budget and actual.

The Management's Discussion and Analysis (MD&A) is a required and integral component of the annual audit and is completed by the school administration. Minnesota public school audits are contracted by independent accounting firms. The District has engaged KDV, Ltd. as its auditor for the 2013-14 school year.

This section of the District's annual financial report presents a management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please review it in conjunction with the District's financial statements, which immediately follows this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparable information between the current year (2013-14) and the prior year (2012-13) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights discussed for the 2013-14 fiscal year include the following:

- Net position increased 5.35% over the prior year (see Table A-1 page 9).
- Overall revenues were \$ 33,426,397, an increase of 2.93% over the previous year and overall expenditures were \$ 32,195,782, an increase of 4.33% from the previous year (see Table A-2 page 10).
- Overall, the District was accurate in its variance between budgeted and actual revenue and expenditures. The District's actual revenue for the General Fund was \$ 693,086, or 2.33%, over budget and actual expenditures for the General Fund were \$ 159,739, or 0.53%, under budget (see page 28).
- Overall, the General Fund balance (restricted and unrestricted) increased \$ 622,015 or 6.74% from the prior year reflecting many factors (see page 24).

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: 1) Independent Auditor’s Report (pages 2-4) 2) required supplementary information which includes the MD&A (this section) (pages 5-19) and Schedule of Funding Progress for OPEB (page 55), 3) the basic financial statements (pages 22-29) and notes (pages 31-53) and 4) supplemental information (pages 57-62). The basic financial statements include two kinds of statements that present different views of the District:

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

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

Figure A-1 Organization of Detroit Lakes Public Schools’ Annual Financial Report

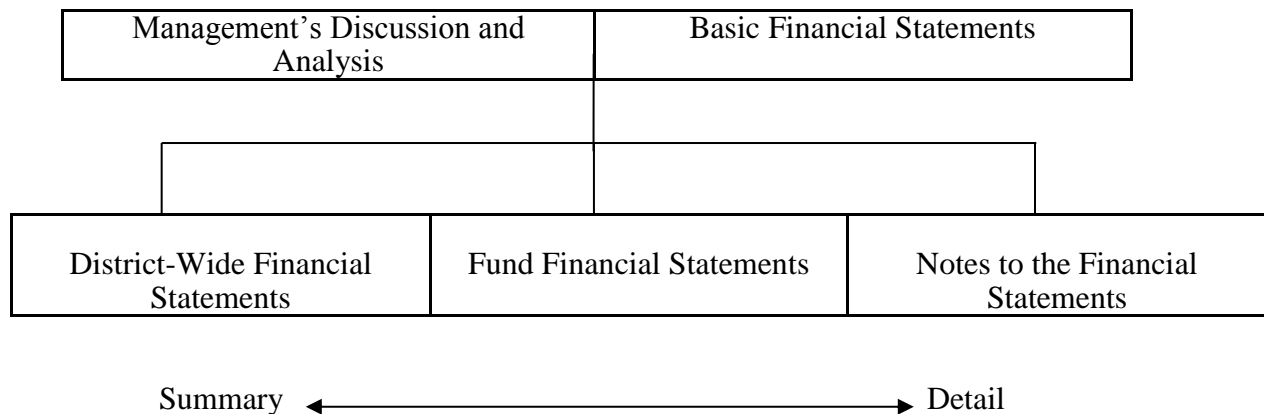


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

INDEPENDENT SCHOOL DISTRICT NO. 22

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

District-Wide Statements

The district-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 and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance, food service and community education	Activities the District operates similar to private businesses: Internal Service Fund	Instances in which the District administers resources on behalf of someone else, such as flexible benefit plan and local collaborative time study
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenue, Expenditures and Changes in Fund Balance	Statement of Net Position Statement of Revenue, Expenditures and Changes in Fund Balance	Statement of Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	General assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and dedications during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

District-Wide Statements

- 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 nonfinancial factors such as changes in the District's property tax base, enrollment trends and the relative condition of school buildings and other facilities.

In the district-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 debt) or to show that it is properly using certain revenues (e.g., federal grants).

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) 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, governmental fund 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 district-wide statements, we provide additional information on the pages following the governmental funds statements (pages 24 and 26) that explain the relationship (or differences) between them.
- Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as prom, grad bash, BTD Funds and the flex benefit account. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$ 24,237,022 on June 30, 2014. This was an increase of approximately 5.35% from \$ 23,006,407 on June 30, 2013. (See Table A-1).

Table A-1			
Net Position - Government Activities			
As of June 30th			
	2014	2013	Percentage Change
Current and other assets	\$ 17,218,628	\$ 15,093,049	14.08%
Capital Assets	<u>15,130,328</u>	<u>15,244,924</u>	<u>-0.75%</u>
Total Assets	\$ 32,348,956	\$ 30,337,973	6.63%
Long-Term Liabilities	\$ 1,675,675	\$ 2,224,435	-24.67%
Other Liabilities	<u>2,926,504</u>	<u>5,107,131</u>	<u>-42.70%</u>
Total Liabilities	\$ 4,602,179	\$ 7,331,566	-37.23%
Deferred Inflows of Resources	3,509,755	-	100.00%
Net Investment in Capital Assets	\$ 13,555,973	\$ 12,895,892	5.12%
Restricted	3,949,410	3,093,641	27.66%
Unrestricted	<u>6,731,639</u>	<u>7,016,874</u>	<u>-4.06%</u>
Total Net Position	\$ 24,237,022	\$ 23,006,407	5.35%
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 32,348,956	\$ 30,337,973	6.63%

The District's improved financial position is the product of several factors. The primary reasons were a result of increased State revenue, increased special education related revenue, decrease in long-term liabilities and due diligence in monitoring and controlling discretionary expenditures.

Increase in Net Position

- \$ 1,230,615 – Change in Net Position

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Table A-2			
Statement of Governmental Activities			
As of June 30th			
	2014	2013	Percentage Change
REVENUES:			
Program Revenues:			
Charges for Services	\$ 1,290,334	\$ 1,288,120	0.17%
Operating Grants and Contributions	10,472,652	9,579,496	9.32%
Capital Grants and Contributions	280,062	282,319	-0.80%
General Revenues:			
Property Taxes	2,668,736	3,962,063	-32.64%
State Aid Formula Grants	17,895,543	16,562,191	8.05%
Other	<u>819,070</u>	<u>799,365</u>	<u>1.18%</u>
Total Revenues	\$ 33,426,397	\$ 32,473,554	2.93%
EXPENSES:			
Administration	\$ 1,463,685	\$ 1,598,803	-8.45%
District Support Services	1,003,527	913,155	9.90%
Elementary and Secondary Regular Instruction	14,260,472	13,178,779	8.21%
Vocational Education Instruction	360,891	379,634	-4.94%
Special Education Instruction	5,836,921	5,665,765	3.02%
Instructional Support Services	1,053,149	952,352	10.58%
Pupil Support Services	3,157,537	3,029,090	4.24%
Sites and Buildings	2,819,561	2,955,429	-4.60%
Fiscal and Other Fixed Cost Program	82,726	74,895	10.46%
Food Services	1,404,878	1,378,715	1.90%
Community Education and Service	728,678	705,289	3.32%
Interest and Fiscal Charges on Long-Term Debt	<u>23,757</u>	<u>28,339</u>	<u>-16.17%</u>
Total Expenses	\$ 32,195,782	\$ 30,860,245	4.33%
Change in Net Position	1,230,615	1,613,309	-23.72%

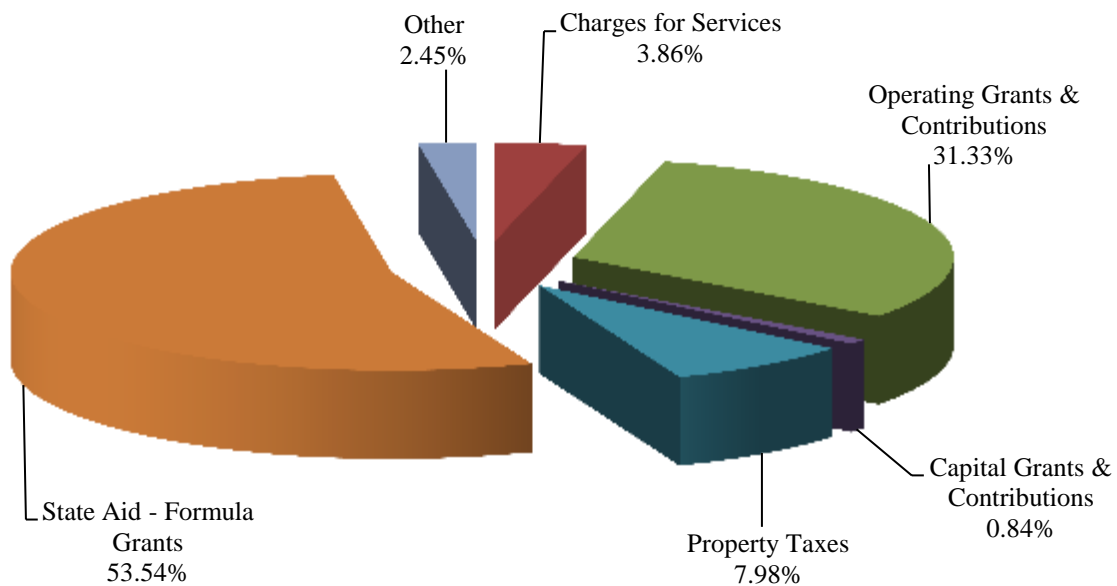
INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

The District's total revenues were \$ 33,426,397 for the year ended June 30, 2014. Property taxes accounted for 7.98%, state formula aids accounted for 53.54% and operating grants and contributions for 31.33% of total revenue for the year (See Table A-2). The remaining 7.15% represents charges for services, investment earnings, other miscellaneous program revenues and other federal and state grants.

The total cost of all programs and services was \$ 32,195,782. The District's expenses were predominantly related to educating and caring for students (80.98%), including transportation and food service (See pie chart on page 12). Administrative activities of the District accounted for about 4.55% of total costs.

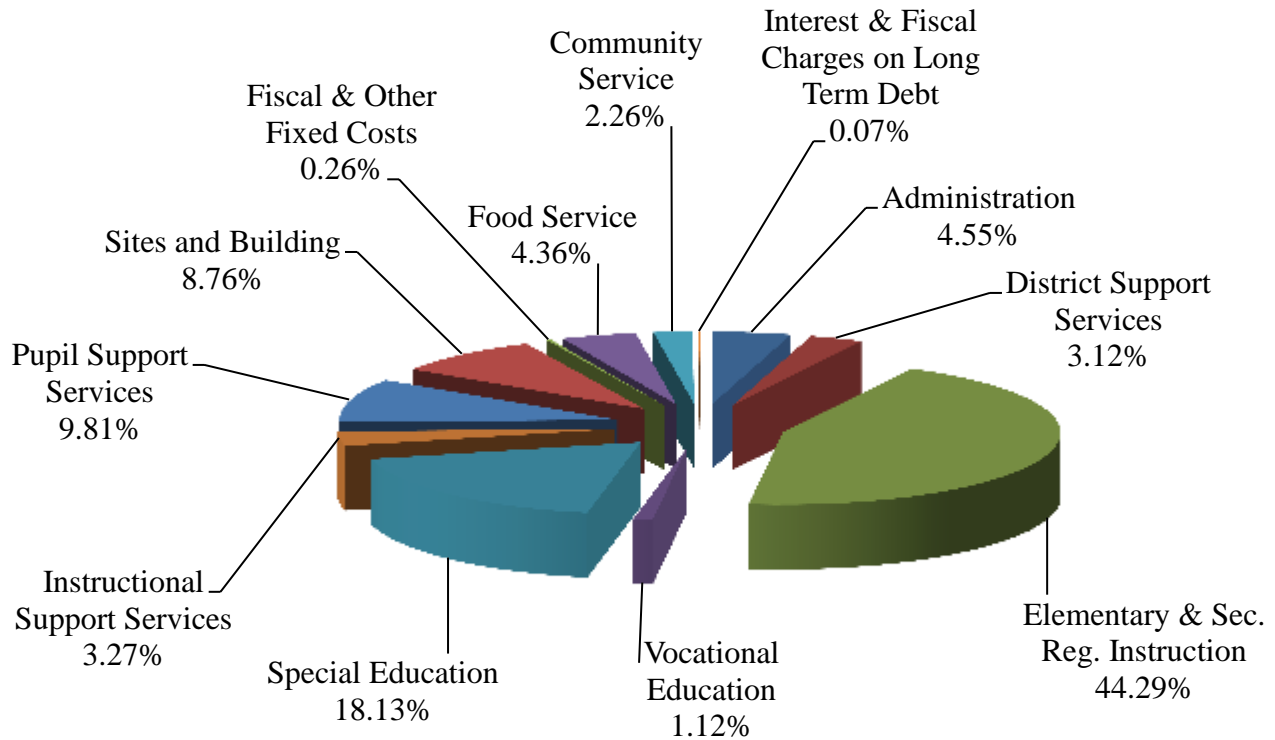
Total revenues surpassed expenditures, increasing net position by \$ 1,230,615, with a 2.93% increase in revenue over 2012-13 and an increase in expenditures of 4.33% over 2012-13. The revenue increase is primarily due to increased state aid and additional special education related revenue. The expenditure increase was primarily due to increased salary and benefit costs, investments in equipment and technology and site and building improvements.

2014 Governmental Activity Revenues



INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

2014 Governmental Activity Expenditures



The cost of all governmental activities in 2013-2014 was \$ 32,195,782.

- Some of the cost was paid by the users of the District's programs (\$ 1,290,334) for 2013-14 compared to (\$ 1,288,120) for 2012-2013.
- The federal and state governments funded certain programs with grants and contributions (\$ 10,752,714) in 2013-14 compared to (\$ 9,861,815) in 2012-2013.
- Most of the District's costs (\$ 32,195,782) for 2013-14, however, were paid for by the federal, state and local taxpayers with local property taxes in 2013-2014 (\$2,668,736), representing only about 7.98% of total revenue.

INDEPENDENT SCHOOL DISTRICT NO. 22

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

FINANCIAL ANALYSIS OF THE DISTRICT’S 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 \$ 11,680,509, as compared to last year’s ending fund balance of \$ 10,920,404.

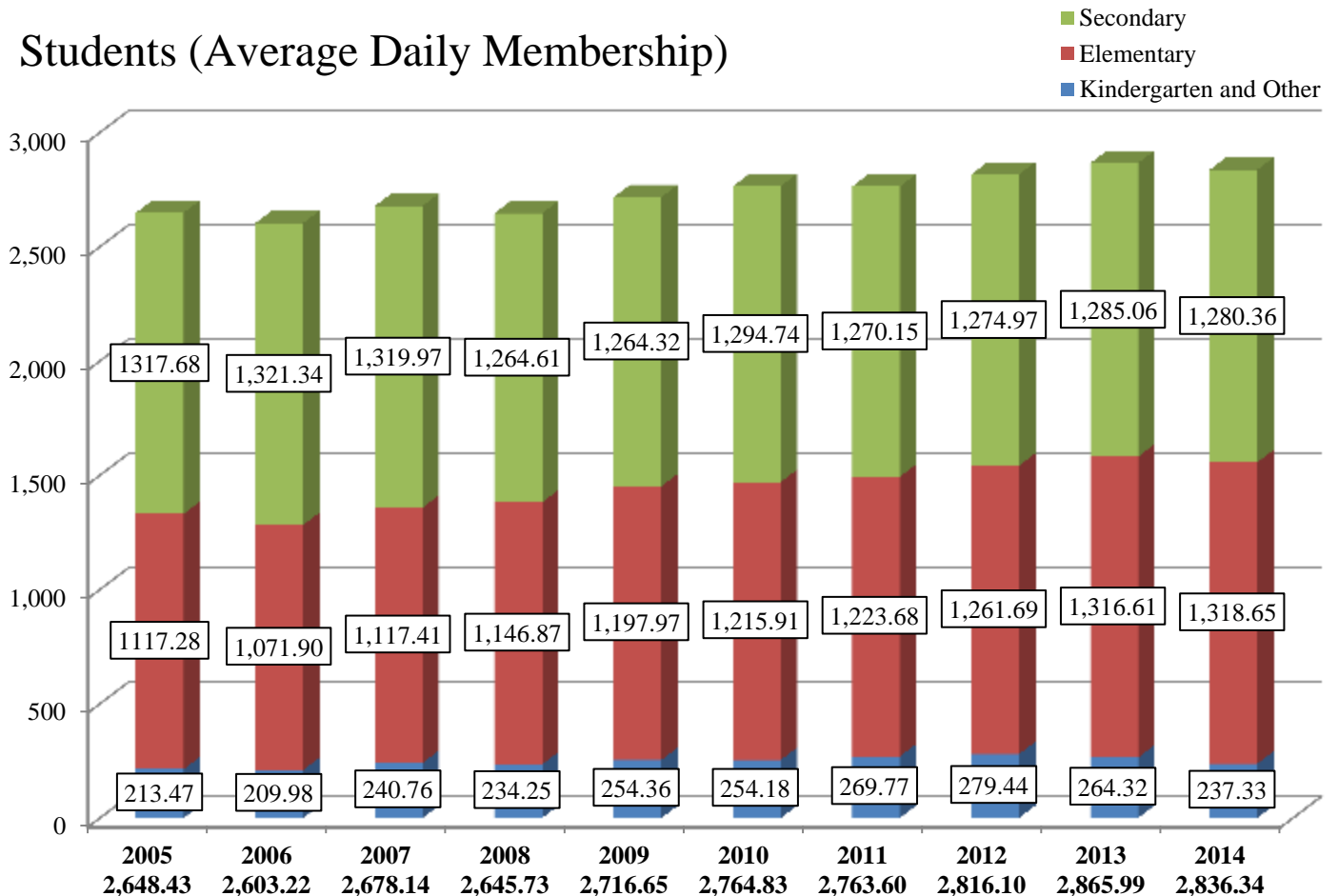
Revenues for the District’s governmental funds were \$ 33,408,468 while total expenditures were \$ 32,966,613. During the 2013-2014 year, the District also received \$ 10,250 in proceeds from the sale of capital assets and \$ 308,000 in proceeds from capital leases. For all funds combined, the District completed the year with revenue over expenditures of \$ 760,105.

GENERAL FUND

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

The following graph shows the number of students decreased in 2005 and 2006, but enrollment began to stabilize and has seen a steady growth overall since 2008 with a slight decrease in 2014.

Students (Average Daily Membership)



INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

The following schedule presents a summary of the General Fund revenues and other financing sources:

	2014	2013	Amount Change	Percentage Change
Local Property Taxes	\$ 1,731,116	\$ 2,938,914	\$ (1,207,798)	-41.10%
Other Local and County Revenues	1,140,502	1,189,754	(49,252)	-4.14%
Revenue from State Sources	26,067,421	23,976,163	2,091,258	8.72%
Revenue from Federal Sources	1,387,845	1,344,797	43,048	3.20%
Sales and Other Conversions of Assets	48,749	51,797	(3,048)	-5.88%
<u>Other Financing Sources</u>	<u>318,250</u>	<u>-</u>	<u>318,250</u>	<u>100.00%</u>
Total Revenues and Other Financing Sources	\$ 30,693,883	\$ 29,501,425	\$ 1,192,458	4.04%

The General Fund revenue increased by \$ 1,192,458, or 4.04%, from the previous year. The largest source of General Fund revenue, called general education revenue, is determined by a state formula based on a per student funding formula and consists of a mix of property tax and state aid revenue. The total used for comparison also includes the Other Financing Sources total. The formula allowance did change in 2012-2013 from \$ 5,224 to \$ 5,302 in 2013-2014. The increase in General Fund revenue was due to an increase in state funding and additional special education related revenue.

The following schedule presents a summary of General Fund expenditures:

	2014	2013	Amount Change	Percentage Change
Salaries	\$ 18,031,447	\$ 17,710,883	\$ 320,564	1.81%
Employee Benefits	5,007,749	4,762,561	245,188	5.15%
Purchased Services	4,048,164	3,761,155	287,009	7.63%
Supplies, Materials and Equipment	2,920,452	2,302,086	618,366	26.86%
<u>Other Expenditures</u>	<u>24,056</u>	<u>24,379</u>	<u>(323)</u>	<u>-1.32%</u>
Total Expenditures	\$ 30,031,868	\$ 28,561,064	\$ 1,470,804	5.15%

Total General Fund expenditures increased \$ 1,470,804, or 5.15%, from the previous year.

In 2013-2014 total salary costs increased 1.81% and employee benefits costs increased by 5.15% over 2012-2013. The increase in salary and benefit costs was directly related to the higher salary and benefit compensation packages for 2013-2014 including an increase of health insurance compensation.

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

General Fund revenue and other financing sources were greater than expenditures by \$ 662,015 for 2013-2014. Therefore, total General Fund balances increased from \$ 9,817,078 on June 30, 2013 to \$ 10,479,093 on June 30, 2014. Unassigned Fund Balance decreased from \$ 4,944,902 on June 30, 2013 to \$ 4,797,196 on June 30, 2014.

	2007	2008	2009	2010	2011	2012	2013	2014
Unrestricted, Unassigned Fund Balance	3,966,810	4,387,224	4,158,315	3,957,383	4,211,309	4,696,029	4,944,902	4,797,196
Unrestricted, Unassigned Fund Balance as a Percentage of Expenditures	17.40%	18.20%	15.60%	14.90%	15.29%	16.64%	17.31%	15.97%
Percentage Change	29.10%	10.60%	-5.20%	-4.80%	6.42%	11.51%	5.31%	2.99%
Annual Expenditures	22,841,223	24,177,667	26,651,160	26,599,768	27,550,575	28,215,865	28,561,064	30,031,868
Percentage Change	3.20%	5.90%	10.20%	-0.19%	3.57%	2.41%	1.22%	5.15%

The unassigned fund balance of \$ 4,797,196 at June 30, 2014 represented 15.97% of annual expenditures or just over eight weeks of operations compared to \$ 4,944,902 on June 30, 2013 which represented 17.64% of annual expenditures, about nine weeks of operations. The District closely monitors its fund balances.

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

As customary, the District revised its annual operating budget midway during the year and again in June. The budget amendments reflect changes as follows:

- Implementing budgets for specially funded projects, which include both federal and state grants, reinstating prior year purchase orders being carried over, and budgeting for clearing, resale and gifts.
- New projects or District initiatives.
- Increases (decreases) in enrollment
- Increases (decreases) in appropriations.
- Unforeseen variances in budget compared to the preliminary budget approved in June.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by approximately \$ 509,060 (deficit) and the actual results for the year show a surplus of approximately \$ 662,015.

- Actual revenues were \$ 693,086 more than expected. Total revenues were 2.33% over budget.
- Actual expenditures were \$ 159,739 less than budget. Total expenditures were 0.53% under budget.
- As a result of actual revenues exceeding the budget by 2.33% and expenditures falling 0.53% under budget, the District experienced an overall "budget to actual" positive variance.

DEBT SERVICE FUNDS

The debt service bonds payable was \$ 1,565,000 as of June 30, 2014, excluding future interest and paying agent charges.

OTHER NONMAJOR FUNDS

Revenues exceeded expenditures in the other non-major funds by \$ 64,680. The Food Service Fund had an operating surplus of \$ 36,250 due to strong participation and increased catering. The Food Service Fund now has a fund balance of \$ 799,652.

The Community Service Fund had an operating surplus of \$ 28,430. The Community Service Fund continues to operate on a sound financial basis maintaining annual revenues greater than annual expenditures. The Community Service Fund has a fund balance of \$ 168,983.

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

POST EMPLOYMENT BENEFITS COMMITMENT

During the next few years, the District's annual financial obligation to pay post employment benefits (severance pay and retirement insurance benefit) will increase because more employees will be reaching retirement age. Accordingly, the District has committed money in the General Fund and adopted a plan to fund its severance pay and retirement insurance benefit as the benefits are earned, in accordance with governmental accounting standards. The committed money for severance pay and retirement insurance benefits are used to finance the retirement benefits provided by all of the departments and funds of the District.

The District has committed \$ 2,499,218 for severance pay and retirement insurance benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had invested \$ 33,235,656 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio visual equipment, vehicles and necessary capital improvements. Total accumulated depreciation as of June 30, 2014 was \$ 18,105,328. More detailed information related to capital assets is located in Note 4 of the financial statements.

Table A-4				
Capital Assets				
As of June 30th				
	2014	2013	Amount Change	Percentage Change
Land	\$ 528,328	\$ -	\$ 528,328	100%
Land Improvements	2,084,284	2,067,668	16,616	0.80%
Buildings	26,761,563	26,622,491	139,072	0.52%
Vehicles	777,673	777,673	-	0.00%
Furniture and Equipment	<u>3,083,808</u>	<u>3,144,004</u>	<u>(60,196)</u>	<u>-1.91%</u>
Total Capital Assets	\$ 33,235,656	\$ 32,611,836	\$ 623,820	1.91%
Less Accumulated Depreciation	<u>(18,105,328)</u>	<u>(17,366,912)</u>	<u>(738,416)</u>	<u>4.25%</u>
Net Value of Capital Assets	\$ 15,130,328	\$ 15,244,924	\$ (114,596)	-0.75%

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Table A-5				
Outstanding Long-Term Liabilities				
As of June 30th				
	2014	2013	Amount Change	Percentage Change
General Obligation (G.O.) Bonds, Including Unamortized Premium	\$ 1,574,355	\$ 2,349,032	\$ (774,677)	-32.98%
Capital Lease	231,955	-	231,955	100%
Compensated Absences, Severance Benefits, and OPEB Payable	877,810	911,849	(34,039)	-3.73%
Total	\$ 2,684,120	\$ 3,260,881	\$ (576,761)	-17.69%

Long-Term Liabilities

At year-end, the District had \$ 1,574,355 in G.O. bonds including unamortized premiums. The District also had \$ 231,955 in capital lease and \$ 877,810 in compensated absences and post employment severance benefits and other post employment benefits (OBEB) payable as of June 30, 2014. More detailed information about the District's long-term liabilities is presented in Table A-5 and in Note 6 of the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The financial condition of the District is solid, especially in comparison with most other school districts. The reasons for this are:

- The District has aggressively worked on consolidating, upgrading and maintaining its physical plant.
- The District has experienced increased enrollment.
- The District has done an excellent job of efficiently maintaining and operating its facilities.
- The District was diligent in predicting, monitoring and controlling expenditures.
- The District has managed its budget in relationship to the past years when there was an enrollment decline.
- The District has a referendum in place and, like others, has become increasingly reliant on voter approved referendum operating levy to generate necessary revenue.
- The District has adequately funded its financial obligation to pay Post Employment benefits.

INDEPENDENT SCHOOL DISTRICT NO. 22
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The district continues to secure new sources of revenue through grants and other revenue opportunities as well as enhance current revenue streams.

With the exception of operating referendums and building bond issues, the District is primarily dependent on the State of Minnesota and Federal sources for its revenue authority.

Overall, we project enrollment to continue to increase moderately for the District for the foreseeable future. Due to the increases in enrollment over the past several years, the District is facing significant space issues in its elementary and middle schools which must be addressed. The creation of additional space is necessary and the district plans to seek voter approval in 2015 for a large-scale facilities project to address space, safety and security issues and improve current learning environments. The district is reliant upon additional voter-approved funds to make these capital improvements possible.

While the District's current financial position remains strong, the District will be required to continue to monitor revenue and expenditure budgets. Due to the unpredictable nature of the State of Minnesota's financial position, the current financial woes of the Federal Government which caused a sequestration of Federal funding, inflationary increases in materials and equipment along with rising labor and benefit costs, the challenge of sustaining the solid financial position of the District will be difficult. The preceding unknown factors will result in the need for annual cost containments to continue. Accordingly, the District continues to utilize a decentralized program based budgeting process. This process has been successful in the past and will efficiently allocate resources according to District priorities. The District will strive to maintain its long standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT ABOUT THIS REPORT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the dollars it receives. If you have questions about this report or need additional financial information, contact the Business Manager at: Administrative Center, Independent School District No. 22, 702 Lake Avenue, Box 766, Detroit Lakes, Minnesota 56501.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 22

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

	Governmental Activities
ASSETS	
Cash and Investments	\$ 11,315,977
Current Property Taxes Receivable	1,797,477
Delinquent Property Taxes Receivable	115,381
Accounts and Interest Receivable	93,276
Due from Department of Education	2,810,037
Due from Federal Government through Department of Education	907,709
Due from Federal Government - Direct	60,867
Due from Other Minnesota School Districts	39,256
Due from Other Governmental Units	19,207
Inventory	59,441
Capital Assets:	
Land	528,328
Land Improvements	2,084,284
Buildings	26,761,563
Equipment	3,083,808
Vehicles	777,673
Less Accumulated Depreciation	<u>(18,105,328)</u>
Total Assets	<u><u>\$ 32,348,956</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 702,383
Salaries and Benefits Payable	904,531
Accrued Interest Payable	5,076
Due to Other Minnesota School Districts	98,467
Due to Other Governmental Units	53,240
Unearned Revenue	154,362
Bond Principal Payable (Net):	
Payable Within One Year	765,000
Payable After One Year	809,355
Capital Lease Payable:	
Payable Within One Year	75,367
Payable After One Year	156,588
Compensated Absences Payable:	
Payable Within One Year	168,078
Payable After One Year	175,741
Net Other Post Employment Benefits (OPEB) Obligation:	
Payable After One Year	<u>533,991</u>
Total Liabilities	<u>4,602,179</u>
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	<u>3,509,755</u>
Net Position	
Net Investment in Capital Assets	13,555,973
Restricted	3,949,410
Unrestricted	<u>6,731,639</u>
Total Net Position	<u>24,237,022</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 32,348,956</u></u>

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

INDEPENDENT SCHOOL DISTRICT NO. 22

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

	Functions/Programs			Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities		
Governmental Activities							
Administration	\$ 1,463,685	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,463,685)
District Support Services	1,003,527	-	-	-	-	-	(1,003,527)
Elementary and Secondary Regular Instruction	14,260,472	277,945	3,195,477	96,139			(10,690,911)
Vocational Education Instruction	360,891	-	11,732	-			(349,159)
Special Education Instruction	5,836,921	52,826	3,882,007	-			(1,902,088)
Instructional Support Services	1,053,149	12,642	351,172	-			(689,335)
Pupil Support Services	3,157,537	3,528	1,990,052	-			(1,163,957)
Sites and Buildings	2,819,561	-	-	183,923			(2,635,638)
Fiscal and Other Fixed Cost Programs	82,726	-	-	-			(82,726)
Food Service	1,404,878	661,146	766,163	-			22,431
Community Education and Services	728,678	282,247	276,049	-			(170,382)
Interest and Fiscal Charges on Long-Term Debt	23,757	-	-	-			(23,757)
Total Governmental Activities	<u>\$ 32,195,782</u>	<u>\$ 1,290,334</u>	<u>\$ 10,472,652</u>	<u>\$ 280,062</u>			<u>(20,152,734)</u>
General Revenues							
Taxes:							
Property Taxes, Levied for General Purposes							1,741,623
Property Taxes, Levied for Community Service							107,861
Property Taxes, Levied for Debt Service							819,252
State Aid-Formula Grants							17,895,543
Other General Revenues							801,402
Investment Income							7,418
Gain on Sale of Assets							10,250
Total General Revenues							<u>21,383,349</u>
Change in Net Position							<u>1,230,615</u>
Net Position - Beginning							<u>23,006,407</u>
Net Position - Ending							<u>\$ 24,237,022</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 22

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 9,658,070	\$ 630,060	\$ 1,027,847	\$ 11,315,977
Current Property Taxes Receivable	1,329,204	365,616	102,657	1,797,477
Delinquent Property Taxes Receivable	87,975	21,054	6,352	115,381
Accounts and Interest Receivable	39,847	-	53,429	93,276
Due from Department of Education	2,783,836	472	25,729	2,810,037
Due from Federal Government through Department of Education	902,653	-	5,056	907,709
Due from Federal Government - Direct	60,867	-	-	60,867
Due from Other Minnesota School Districts	39,256	-	-	39,256
Due from Other Governmental Units	10,617	-	8,590	19,207
Inventory	27,778	-	31,663	59,441
	<u>\$ 14,940,103</u>	<u>\$ 1,017,202</u>	<u>\$ 1,261,323</u>	<u>\$ 17,218,628</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 664,421	\$ -	\$ 37,962	\$ 702,383
Salaries and Benefits Payable	880,312	-	24,219	904,531
Due to Other Minnesota School Districts	98,459	-	8	98,467
Due to Other Governmental Units	50,230	-	3,010	53,240
Unearned Revenue	147,664	-	6,698	154,362
Total Liabilities	<u>1,841,086</u>	<u>-</u>	<u>71,897</u>	<u>1,912,983</u>
Deferred Inflows of Resources				
Unavailable Revenue - Delinquent Property Taxes	87,975	21,054	6,352	115,381
Unavailable Revenue - Property Taxes Levied for Subsequent Year's Expenditures	2,531,949	763,367	214,439	3,509,755
Total Deferred Inflows of Resources	<u>2,619,924</u>	<u>784,421</u>	<u>220,791</u>	<u>3,625,136</u>
Fund Balances				
Nonspendable	27,778	-	31,663	59,441
Restricted	2,654,901	232,781	937,121	3,824,803
Committed	2,499,218	-	-	2,499,218
Assigned	500,000	-	-	500,000
Unassigned	4,797,196	-	(149)	4,797,047
Total Fund Balances	<u>10,479,093</u>	<u>232,781</u>	<u>968,635</u>	<u>11,680,509</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 14,940,103</u>	<u>\$ 1,017,202</u>	<u>\$ 1,261,323</u>	<u>\$ 17,218,628</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

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

Total Fund Balances - Governmental Funds \$ 11,680,509

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

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	33,235,656
Less Accumulated Depreciation	(18,105,328)

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	(1,565,000)
Capital Lease Payable	(231,955)
Compensated Absences Payable	(343,819)
Net OPEB Obligation	(533,991)

Governmental funds report debt issuance premiums and discounts as an other
financing source or use at the time of issuance. Premiums and discounts are
reported as an unamortized asset or liability in the government-wide financial
statements.

(9,355)

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.

115,381

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

(5,076)

Total Net Position - Governmental Activities

\$ 24,237,022

INDEPENDENT SCHOOL DISTRICT NO. 22

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

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Taxes	\$ 1,731,116	\$ 822,603	\$ 107,338	\$ 2,661,057
Other Local and County Revenues	1,140,502	425	328,946	1,469,873
Revenue from State Sources	26,067,421	4,722	391,089	26,463,232
Revenue from Federal Sources	1,387,845	-	716,566	2,104,411
Sales and Other Conversion of Assets	48,749	-	661,146	709,895
Total Revenues	<u>30,375,633</u>	<u>827,750</u>	<u>2,205,085</u>	<u>33,408,468</u>
EXPENDITURES				
Current				
Administration	1,502,245	-	-	1,502,245
District Support Services	969,441	-	-	969,441
Elementary and Secondary Regular Instruction	13,379,227	-	-	13,379,227
Vocational Education Instruction	357,426	-	-	357,426
Special Education Instruction	5,805,611	-	-	5,805,611
Instructional Support Services	1,008,655	-	-	1,008,655
Pupil Support Services	3,126,773	-	-	3,126,773
Sites and Buildings	2,040,281	-	-	2,040,281
Fiscal and Other Fixed Cost Programs	82,726	-	-	82,726
Food Service	-	-	1,387,847	1,387,847
Community Education and Services	-	-	741,209	741,209
Capital Outlay				
Administration	19,120	-	-	19,120
District Support Services	21,995	-	-	21,995
Elementary and Secondary Regular Instruction	739,560	-	-	739,560
Vocational Education Instruction	265	-	-	265
Special Education Instruction	28,428	-	-	28,428
Instructional Support Services	41,826	-	-	41,826
Pupil Support Services	1,273	-	-	1,273
Sites and Buildings	826,211	-	-	826,211
Food Service	-	-	4,554	4,554
Community Education and Services	-	-	6,795	6,795
Debt Service				
Principal	76,045	770,000	-	846,045
Interest and Fiscal Charges	4,760	24,340	-	29,100
Total Expenditures	<u>30,031,868</u>	<u>794,340</u>	<u>2,140,405</u>	<u>32,966,613</u>
Excess of Revenues Over Expenditures	343,765	33,410	64,680	441,855
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	10,250	-	-	10,250
Proceeds from Capital Leases	308,000	-	-	308,000
Total Other Financing Sources	<u>318,250</u>	<u>-</u>	<u>-</u>	<u>318,250</u>
Net Change in Fund Balances	662,015	33,410	64,680	760,105
FUND BALANCES				
Beginning of Year	<u>9,817,078</u>	<u>199,371</u>	<u>903,955</u>	<u>10,920,404</u>
End of Year	<u>\$ 10,479,093</u>	<u>\$ 232,781</u>	<u>\$ 968,635</u>	<u>\$ 11,680,509</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

**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 \$ 760,105

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

Capital outlays are reported in governmental funds as expenditures. However,
in the Statement of Activities, the cost of those assets is allocated over the
estimated useful lives as depreciation expense.

Capital Outlays	711,736
Depreciation Expense	(758,370)
Loss on Disposal	(74,262)
Donated Assets	6,300

Severance and compensated absences are recognized as paid in the governmental
funds but recognized as the expense is incurred in the Statement of Activities. 150,815

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. 846,045

Net post employment benefit obligations are recognized as paid in the governmental
funds but recognized as the expense is incurred in the Statement of Activities. (116,776)

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. 666

Governmental funds report the effect of bond premiums when the debt is first issued,
whereas these amounts are deferred and amortized in the Statement of Activities. 4,677

Proceeds from the sale of long-term debt are recognized as other financing sources
in the governmental funds increasing fund balance but having no effect
on net position in the Statement of Activities.

Capital Lease Payable	(308,000)
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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. 7,679

Change in Net Position - Governmental Activities \$ 1,230,615

INDEPENDENT SCHOOL DISTRICT NO. 22

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
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	\$ 4,113,390	\$ 1,718,572	\$ 1,731,116	\$ 12,544
Other Local and County Revenues	743,093	927,962	1,140,502	212,540
Revenue from State Sources	23,306,377	25,624,974	26,067,421	442,447
Revenue from Federal Sources	1,292,985	1,385,086	1,387,845	2,759
Sales and Other Conversion of Assets	25,953	25,953	48,749	22,796
Total Revenues	<u>29,481,798</u>	<u>29,682,547</u>	<u>30,375,633</u>	<u>693,086</u>
EXPENDITURES				
Current				
Administration	1,632,409	1,535,281	1,502,245	(33,036)
District Support Services	945,576	988,514	969,441	(19,073)
Elementary and Secondary Regular Instruction	13,477,445	13,584,028	13,379,227	(204,801)
Vocational Education Instruction	245,671	223,036	357,426	134,390
Special Education Instruction	5,957,301	6,001,224	5,805,611	(195,613)
Instructional Support Services	1,147,132	1,146,203	1,008,655	(137,548)
Pupil Support Services	3,164,530	3,170,337	3,126,773	(43,564)
Sites and Buildings	2,003,070	2,039,825	2,040,281	456
Fiscal and Other Fixed Cost Programs	80,000	80,000	82,726	2,726
Capital Outlay				
Administration	23,179	23,179	19,120	(4,059)
District Support Services	40,270	40,270	21,995	(18,275)
Elementary and Secondary Regular Instruction	400,918	403,192	739,560	336,368
Vocational Education Instruction	-	-	265	265
Special Education Instruction	12,350	12,350	28,428	16,078
Instructional Support Services	40,404	40,404	41,826	1,422
Pupil Support Services	6,600	6,600	1,273	(5,327)
Sites and Buildings	382,164	897,164	826,211	(70,953)
Debt Service				
Principal	-	-	76,045	76,045
Interest and Fiscal Charges	-	-	4,760	4,760
Total Expenditures	<u>29,559,019</u>	<u>30,191,607</u>	<u>30,031,868</u>	<u>(159,739)</u>
Excess of Revenues Over (Under) Expenditures	<u>(77,221)</u>	<u>(509,060)</u>	<u>343,765</u>	<u>852,825</u>
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	-	-	10,250	10,250
Proceeds from Capital Leases	-	-	308,000	308,000
Total Other Financing Sources	-	-	318,250	318,250
Net Change in Fund Balances	<u>\$ (77,221)</u>	<u>\$ (509,060)</u>	<u>662,015</u>	<u>\$ 1,171,075</u>
FUND BALANCES				
Beginning of Year			<u>9,817,078</u>	
End of Year			<u>\$ 10,479,093</u>	

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

INDEPENDENT SCHOOL DISTRICT NO. 22
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and Investments	<u>\$ 89,793</u>
LIABILITIES	
Accounts Payable	<u>\$ 89,793</u>

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INDEPENDENT SCHOOL DISTRICT NO. 22

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 six 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 not under the School Board's control; therefore, separate audited financial statements have been issued.

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 at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 are not included among program revenues; instead, they are properly reported 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 are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. 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.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

Separate fund financial statements are provided for governmental funds and 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 Fund is 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, this Fund is 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 are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

2. Recording of Expenditures

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

The District applies unassigned resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District will strive to spend the resources from fund balance classifications in the following order (first to last): unassigned, assigned, committed and restricted.

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.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued):

Major Funds (Continued):

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, 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. Local, state and federal revenues are received in this Fund to specifically support the Food Service Program.

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. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Fiduciary Fund:

Agency Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used by the District employees for their flex account.

D. Cash and Investments

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. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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

Cash and investments at June 30, 2014 were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). The MSDLAF is an external investment pool 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 pool is the same as the value of the pool shares.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF or FCUA coverage.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments (Continued)

Minnesota Statutes 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 FDIC insurance or corporate surety bonds.

Interest Rate Risk: Interest rate risk is the risk of managing exposure to fair value arising from increasing interest rates. The District's investment policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments be rated as required by *Minnesota Statutes* 118A.04.

Concentration of Credit Risk: Concentration of credit risk limits the amount the District may invest in any one issuer. The District's policy states the District shall 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 an investment, 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 collateral securities that are in the possession of an outside party. The District's investment policy does not address custodial credit risk for investments.

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 represents uncollected taxes for the past six years, and is 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.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Inventory

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. Property Taxes

The District is located in the Counties of Becker and Ottertail.

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 counties spread all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remit 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.

I. 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 \$ 2,500 with a useful life of more than one year. A limited amount of equipment items, such as high risk electronic equipment may be placed on the capital asset list even though the original cost was less than \$ 2,500. 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 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment and vehicles.

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

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. 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.

K. 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 straight-line 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 from the actual debt proceeds received, are reported as debt service expenditures.

L. Compensated Absences

The District compensates substantially all full-time employees upon termination of employment for unused vacation up to a maximum.

Substantially all employees are entitled to sick leave. Noncertified employees are not compensated for unused sick leave upon a qualified termination of employment. Certified employees are compensated for unused sick leave upon termination of employment, in conjunction with severance pay as described in Note 1.M. Sick leave pay is shown as an expenditure in the year paid in the governmental funds.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Post Employment Severance and Health Benefits

Full-time teachers are eligible for either a lump sum stipend or participation in an employer matching 403(b) plan. Teachers hired before July 1, 1987, who have 20 or more years of experience in the District as of July 1, 2000 and those hired before July 1, 1987, with less than 20 years experience who have opted the first choice, will receive a lump sum stipend based upon unused sick leave. Teachers hired after July 1, 1987 and those hired before July 1, 1987, with less than 20 years experience who opted for the second retirement plan, will participate in an employer matching 403(b) plan.

Administrators hired before July 1, 1998, who are at least 55 years of age, have 15 years of continuous service in Minnesota and have rendered a minimum of ten years of service to the District are eligible for severance pay based upon unused sick leave and years of service or an employer matching 403(b) plan. As of June 30, 2014, the District had a balance for compensated absences payable, related to severance, of \$ 343,819.

Administrators hired on or after July 1, 1998, have the option to participate in an employer matching 403(b) program after one year of service in the District.

Administrators and full-time teachers retiring, who are at least 55 years of age and have 15 years of continuous service in Minnesota and a minimum of ten years of service to the District, are eligible to receive a lump sum amount of \$ 11,500 and \$ 10,000, respectively, payable to a third party vendor selected by the District for health insurance premiums and out-of-pocket medical expenses. For the year ended June 30, 2014, the District paid \$ 71,500 to seven employees for these benefits.

N. Other Post Employment Benefits

The District's contract with teachers for 1999-2001 included a retirement insurance provision stating teachers retiring from the District who qualify for a retirement incentive will receive up to \$ 137.95 per month toward the cost of health insurance premiums beginning at age 55 until age 65. To qualify for this benefit, the teacher must have retired between 1999 and 2001, obtained a minimum of 15 years of experience, ten of those being with the District, be employed full-time and have attained the age of 55.

Current contract language states eligible teachers retiring after 2001 shall be eligible to receive a lump sum amount of \$ 10,000, payable to a third party vendor for qualifying IRS health insurance premiums. Eligibility requirements for minimum years of service and age remained the same as in the previous contract, detailed above.

O. 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. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

P. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

- 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 inventory and prepaids.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The District’s highest level of decision making authority is the School Board. The formal action to establish or modify a commitment requires a majority vote by the School Board to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the School Board.
- Assigned Fund Balances – The School Board delegates the Finance Committee the power to assign balances for specific purposes.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance, if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 30% of the annual budget.

Q. 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.

R. 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 22

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 District 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 and Special Revenue Funds. Formal budgetary integration is not required for the Debt Service Fund because effective budgetary control is alternatively achieved through G.O. bond indenture provisions.
4. Budgets for the General and Special Revenue 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.

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 – Deposits: As of June 30, 2014, the District’s bank balances were not exposed to custodial credit risk because they were fully insured through FDIC and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the District’s name.

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

Deposits	\$ 1,461,056
Certificates of Deposit	<u>1,850,075</u>
Total Deposits	<u><u>\$ 3,311,131</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 22
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 of Investments Due within One Year</u>	<u>S&P Rating</u>
MSDLAF	\$ 847,517	AAAm
MSDMAX	<u>7,233,397</u>	AAAm
 Total Investments	 <u><u>\$ 8,080,914</u></u>	

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 3,311,131
Petty Cash	13,725
Investments	<u>8,080,914</u>
 Total Deposits and Investments	 <u><u>\$ 11,405,770</u></u>

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

Statement of Net Position:	
Cash and Investments	\$ 11,315,977
 Statement of Fiduciary Net Position:	
Cash and Investments	<u>89,793</u>
 Total	 <u><u>\$ 11,405,770</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 22
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	\$ -	\$ 528,328	\$ -	\$ 528,328
Capital Assets being Depreciated:				
Land Improvements	2,067,668	16,616	-	2,084,284
Buildings	26,622,491	139,072	-	26,761,563
Equipment	3,144,004	34,020	94,216	3,083,808
Vehicles	777,673	-	-	777,673
Total Capital Assets being Depreciated	<u>32,611,836</u>	<u>189,708</u>	<u>94,216</u>	<u>32,707,328</u>
Less Accumulated Depreciation for:				
Land Improvements	1,030,081	63,469	-	1,093,550
Buildings	13,793,724	497,351	-	14,291,075
Equipment	1,860,173	162,505	19,954	2,002,724
Vehicles	682,934	35,045	-	717,979
Total Accumulated Depreciation	<u>17,366,912</u>	<u>758,370</u>	<u>19,954</u>	<u>18,105,328</u>
Total Capital Assets being Depreciated, Net	<u>15,244,924</u>	<u>(568,662)</u>	<u>74,262</u>	<u>14,602,000</u>
Governmental Activities, Capital Assets, Net	<u>\$ 15,244,924</u>	<u>\$ (40,334)</u>	<u>\$ 74,262</u>	<u>\$ 15,130,328</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 4 – CAPITAL ASSETS

Depreciation expense of \$ 758,370 for the year ended June 30, 2014 was charged to the following governmental functions:

Administration	\$ 1,693
District Support Services	8,680
Elementary and Secondary Regular Instruction	55,215
Vocational Education Instruction	971
Special Education Instruction	1,047
Instructional Support Services	1,327
Pupil Support Services	21,634
Sites and Buildings	655,431
Food Service	12,095
Community Education	<u>277</u>
Total Depreciation Expense	<u><u>\$ 758,370</u></u>

NOTE 5 – SHORT-TERM DEBT

On January 7, 2013, the District obtained a revolving line of credit (LOC) for \$ 2,375,000 through Wells Fargo Bank. The agreement expired on December 31, 2013. On March 10, 2014, the District obtained a revolving LOC for \$ 2,400,000 through Wells Fargo Bank. Both agreements required interest on all borrowings based on a prime rate plus 0.5% for the 2013 LOC and 2014 LOC and were secured by assets of the District. As of June 30, 2014, there is no amount due on the LOCs and there were no advances on either of the LOCs for the year ended June 30, 2014.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</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:						
2012A School Building						
Refunding Bonds	02/01/12	1.00%	\$ 3,110,000	04/01/16	\$ 1,565,000	\$ 765,000
iPad Lease	08/14/13	2.55%	308,000	04/15/17	231,955	75,367
Unamortized Premium					9,355	-
Compensated Absences and Severance Benefits Payable					<u>343,819</u>	<u>168,078</u>
Total all Long-Term Liabilities					<u>\$ 2,150,129</u>	<u>\$ 1,008,445</u>

The long-term bond liability listed above was issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Other long-term liabilities are generally liquidated by the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond liabilities:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 765,000	\$ 15,650	\$ 780,650
2016	<u>800,000</u>	<u>8,000</u>	<u>808,000</u>
Total	<u>\$ 1,565,000</u>	<u>\$ 23,650</u>	<u>\$ 1,588,650</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 – LONG-TERM DEBT

C. 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	\$ 2,335,000	\$ -	\$ 770,000	\$1,565,000
Capital Lease	-	308,000	76,045	231,955
Unamortized Premium	14,032	-	4,677	9,355
Compensated Absences and Severance Benefits Payable	<u>494,634</u>	<u>106,443</u>	<u>257,258</u>	<u>343,819</u>
 Total Long-Term Liabilities	 <u><u>\$ 2,843,666</u></u>	 <u><u>\$ 414,443</u></u>	 <u><u>\$ 1,107,980</u></u>	 <u><u>\$2,150,129</u></u>

D. Capital Lease Obligations

On August 14, 2013, the District entered into a lease purchase agreement for the acquisition of Apple® iPads for faculty and students. The capital lease obligation totaled \$ 308,000. The capital lease agreement includes semi-annual principal and interest payments of \$ 40,403 on April 15 and October 15 from October 15, 2013 through April 15, 2017. Because the iPads purchased through the capital lease were individually under the District’s capitalization threshold, the assets were not capitalized.

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

<u>Year Ending June 30,</u>	
2015	\$ 80,805
2016	80,805
2017	<u>80,805</u>
Total Minimum Lease Payments	242,415
Less Amount Representing Interest	<u>(10,460)</u>
 Present Value of Minimum Lease Payments	 <u><u>\$ 231,955</u></u>

The assets added under this capital lease were not capitalized since they did not meet the capitalization threshold of the District.

NOTE 7 – FUND BALANCES/NET POSITION

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances

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

	<u>General Fund</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ 27,778	\$ -	\$ 31,663	\$ 59,441
Restricted/Reserved for:				
Staff Development	461,532	-	-	461,532
Health and Safety	(88,285)	-	-	(88,285)
Operating Capital	1,632,128	-	-	1,632,128
Area Learning Center	30,910	-	-	30,910
Gifted and Talented	81,041	-	-	81,041
Safe Schools - Crime Levy	9,119	-	-	9,119
Medical Assistance	528,456	-	-	528,456
Community Education	-	-	102,523	102,523
Early Childhood and Family Education	-	-	26,292	26,292
Adult Basic Education	-	-	30,799	30,799
School Readiness	-	-	9,518	9,518
Food Service	-	-	767,989	767,989
Debt Service	-	232,781	-	232,781
Total Restricted/Reserved	<u>2,654,901</u>	<u>232,781</u>	<u>937,121</u>	<u>3,824,803</u>
Committed for:				
Separation/Retirement Benefits	2,499,218	-	-	2,499,218
Assigned for:				
Construction	500,000	-	-	500,000
Unassigned	<u>4,797,196</u>	<u>-</u>	<u>(149)</u>	<u>4,797,047</u>
 Total Fund Balance	 <u>\$10,479,093</u>	 <u>\$ 232,781</u>	 <u>\$ 968,635</u>	 <u>\$ 11,680,509</u>

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventories.

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 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.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to at least 90% of the district average general education revenue, minus .0485 times the formula allowance (without the basic skills, transportation sparsity or transportation transition portions) per pupil unit, times the number of pupil units attending area learning centers. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted for Medical Assistance – This balance represents the Medical Assistance billings that were not spent during the year.

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/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes 124D.16*).

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned for Construction – This balance represents an amount set aside for future capital needs that will not be funded through operating capital or deferred maintenance.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service and Debt Service Funds.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – 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), both 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.

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 below and on the following page.

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

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Tier I Benefits: (Continued)

With these provisions:

- Normal retirement is age 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% 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.

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

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

The benefit provisions stated apply to active Plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the 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.minnesota.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.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

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 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 \$ 964,309, \$ 875,980 and \$ 801,697, 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%.

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.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

A. Plan Description (Continued)

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 ten 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 ten 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.

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. GERF 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 \$ 320,182, \$ 307,467 and \$ 295,196, respectively, equal to the contractually required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield and Public Employers Insurance Program (PEIP). 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 and PEIP. The required contributions are based on projected pay-as-you-go financing requirements. For 2014, the District contributed \$ 213,826 to the plan. As of June 30, 2014, there were approximately 23 retirees receiving health benefits from the District's health plan.

C. Annual OPEB Cost and Net OPEB Costs Obligation

The District's annual 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	\$ 337,767
Interest on Net OPEB Obligation	18,775
Adjustment to ARC	(25,940)
Annual OPEB Cost (Expense)	<u>330,602</u>
District Contributions	<u>(213,826)</u>
Increase in Net OPEB Obligation	116,776
Net OPEB Obligation - Beginning of Year	417,215
Net OPEB Obligation - End of Year	<u><u>\$ 533,991</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 22

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2013 and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/14	\$ 330,602	\$ 213,826	65%	\$ 533,991
06/30/13	306,856	235,072	77%	417,215
06/30/12	308,471	219,032	71%	345,431

D. Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 2,884,907 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 2,884,907. The covered payroll (annual payroll of active employees covered by the plan) was \$ 14,600,702, and the ratio of the UAAL to the covered payroll was 19.8%.

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 22
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions (Continued)

At the July 1, 2013 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 does not plan to prefund this benefit at this time. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially in 2013, reduced incrementally to an ultimate rate of 5.0% after five years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 30 years.

NOTE 10 – COMMITMENT

On June 26, 2014 the district entered into a contract with FLR Sanders, Inc. for the replacement of the middle school gym floor for \$ 133,200. As of June 30, 2014 the remaining commitment on the contract was \$ 133,200.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in some items previously reported as liabilities on the balance sheet to be reclassified as Deferred Inflows of Resources.

NOTE 12 – GASB STANDARDS 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. 22

**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)
07/01/13	\$ -	\$ 2,884,907	\$ 2,884,907	0.0%	\$ 14,600,702	19.8%
07/01/11	-	2,779,348	2,779,348	0.0%	13,357,006	20.8%
07/01/09	-	2,195,388	2,195,388	0.0%	12,984,169	16.9%

* See Note 9 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 22

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2014

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
ASSETS			
Cash and Investments	\$ 769,974	\$ 257,873	\$ 1,027,847
Current Property Taxes Receivable	-	102,657	102,657
Delinquent Property Taxes Receivable	-	6,352	6,352
Accounts and Interest Receivable	39,742	13,687	53,429
Due from Department of Education	318	25,411	25,729
Due from Federal Government through Department of Education	-	5,056	5,056
Due from Other Governmental Units	900	7,690	8,590
Inventory	31,663	-	31,663
	<u>\$ 842,597</u>	<u>\$ 418,726</u>	<u>\$ 1,261,323</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 32,001	\$ 5,961	\$ 37,962
Salaries and Benefits Payable	10,446	13,773	24,219
Due to Other Minnesota School Districts	8	-	8
Due to Other Governmental Units	490	2,520	3,010
Unearned Revenue	-	6,698	6,698
Total Liabilities	<u>42,945</u>	<u>28,952</u>	<u>71,897</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Delinquent Property Taxes	-	6,352	6,352
Unavailable Revenue - Property Taxes Levied for Subsequent Year's Expenditures	-	214,439	214,439
Total Deferred Inflows of Resources	<u>-</u>	<u>220,791</u>	<u>220,791</u>
 Fund Balances			
Nonspendable	31,663	-	31,663
Restricted	767,989	169,132	937,121
Unassigned	-	(149)	(149)
Total Fund Balances	<u>799,652</u>	<u>168,983</u>	<u>968,635</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 842,597</u>	<u>\$ 418,726</u>	<u>\$ 1,261,323</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
REVENUES			
Local Property Taxes	\$ -	\$ 107,338	\$ 107,338
Other Local and County Revenues	1,342	327,604	328,946
Revenue from State Sources	57,096	333,993	391,089
Revenue from Federal Sources	709,067	7,499	716,566
Sales and Other Conversion of Assets	661,146	-	661,146
Total Revenues	1,428,651	776,434	2,205,085
EXPENDITURES			
Current			
Food Service	1,387,847	-	1,387,847
Community Education and Services	-	741,209	741,209
Capital Outlay			
Food Service	4,554	-	4,554
Community Education and Services	-	6,795	6,795
Total Expenditures	1,392,401	748,004	2,140,405
Net Change in Fund Balances	36,250	28,430	64,680
FUND BALANCES			
Beginning of Year	763,402	140,553	903,955
End of Year	\$ 799,652	\$ 168,983	\$ 968,635

INDEPENDENT SCHOOL DISTRICT NO. 22

SCHEDULE OF PROPERTY TAX AND MARKET VALUE INFORMATION

	For Taxes Levied in 2013, Payable in 2014	For Taxes Levied in 2012, Payable in 2013
TAXABLE NET TAX CAPACITY		
Real Estate and Personal Property	<u>\$ 20,538,612</u>	<u>\$ 20,552,517</u>
REFERENDUM MARKET VALUES	<u>\$ 1,343,262,900</u>	<u>\$ 1,351,599,500</u>
CERTIFIED LEVIES AND TAX CAPACITY RATES		
Certified Levies		
School Maintenance	\$ 2,339,847	\$ 1,542,921
Community Service	214,423	211,262
Debt Service	<u>763,309</u>	<u>822,125</u>
Total Certified Levies	<u>\$ 3,317,579</u>	<u>\$ 2,576,308</u>
General Referendum	<u>\$ 408,798</u>	<u>\$ 1,301,264</u>
Tax Capacity Rates		
School Maintenance	6.242	5.793
Community Service	1.044	1.028
Debt Service	<u>3.714</u>	<u>3.997</u>
Total Tax Capacity Rates	<u>11.000</u>	<u>10.818</u>
General Referendum (Spread on Market Value)	<u>0.109</u>	<u>0.122</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

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

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 30,375,633	\$ 30,375,631	\$ 2	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	30,031,868	30,031,867	1	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	27,778	27,778	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	461,532	461,532	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(88,285)	(88,285)	-	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	1,632,128	1,632,128	-	Total Revenue	\$ 827,750	\$ 827,752	\$ (2)
426 \$ 25 Taconite	-	-	-	Total Expenditures	794,340	794,341	(1)
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	30,910	30,910	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	81,041	81,041	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	232,781	232,782	(1)
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
448 Achievement and Integration Revenue	-	-	-				
449 Safe School Crime	9,119	9,120	(1)	08 TRUST FUND			
450 Transition for Pre-Kindergarten	-	-	-	Total Revenue	\$ -	\$ -	\$ -
451 QZAB and QSCB Payments	-	-	-	Total Expenditures	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
453 Unfunded Severance and Retirement Levy	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Restricted:</i>							
464 Restricted Fund Balance	528,456	528,456	-	20 INTERNAL SERVICE FUND			
<i>Committed:</i>				Total Revenue	\$ -	\$ -	\$ -
418 Committed for Separation	2,499,218	2,499,218	-	Total Expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
462 Assigned Fund Balance	500,000	500,000	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
422 Unassigned Fund Balance (Net Position)	4,797,196	4,797,193	3	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICES FUND				<i>Unassigned:</i>			
Total Revenue	\$ 1,428,651	\$ 1,428,650	\$ 1	422 Unassigned Fund Balance (Net Position)	-	-	-
Total Expenditures	1,392,401	1,392,401	-				
<i>Nonspendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Nonspendable Fund Balance	31,663	31,663	-	Total Revenue	\$ -	\$ -	\$ -
<i>Restricted/Reserved:</i>				Total Expenditures	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
464 Restricted Fund Balance	767,989	767,990	(1)				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
04 COMMUNITY SERVICE FUND				<i>Nonspendable:</i>			
Total Revenue	\$ 776,434	\$ 776,435	\$ (1)	460 Nonspendable Fund Balance	-	-	-
Total Expenditures	748,004	748,007	(3)	<i>Restricted:</i>			
<i>Nonspendable:</i>				464 Restricted Fund Balance	-	-	-
460 Nonspendable Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				463 Unassigned Fund Balance	-	-	-
426 \$ 25 Taconite	-	-	-				
431 Community Education	102,523	102,523	-				
432 ECFE	26,292	26,292	-				
444 School Readiness	9,518	9,518	-				
447 Adult Basic Education	30,799	30,799	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	(149)	(151)	2				

INDEPENDENT SCHOOL DISTRICT NO. 22

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

Federal Agency/Pass Through Agency/Program Title	Federal CFDA Number	2013-2014 Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
School Breakfast	10.553	\$ 96,140
Child Nutrition Type A Lunch	10.555	527,563
Commodities Program	10.555	<u>85,364</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		709,067
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	528,466
Special Education Cluster:		
Special Education	84.027	554,071
IDEA Part B, Section 619, Disabled Early Education	84.173	28,393
IDEA Part B, Section 611, CEIS	84.027A	<u>46,977</u>
Total Special Education Cluster		629,441
Adult Basic Education	84.002	5,056
Infants and Toddlers Program	84.181	14,351
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	114,222
Race to the Top Cluster:		
Race to the Top - Early Learning Challenge - Title I Prekindergarten Incentive	84.412	5,524
Race to the Top - Early Learning Challenge	84.412A	<u>8,863</u>
Total Race to the Top Cluster		14,387
Through Lakes Crisis and Resource Center:		
Community Based Child Abuse Prevention	93.590	2,443
Direct from Federal Government:		
Indian Elementary and Secondary School Assistance	84.060	<u>86,978</u>
Total U.S. Department of Education		<u>1,395,344</u>
Total Federal Expenditures		<u>\$ 2,104,411</u>

INDEPENDENT SCHOOL DISTRICT NO. 22

**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. 22
Detroit Lakes, 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. 22, Detroit Lakes, 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, and have issued our report thereon dated October 28, 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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 02-01 that we consider to be a significant deficiency in internal control.

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 responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 28, 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. 22
Detroit Lakes, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 22, Detroit Lakes, 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 Costs in Accordance with OMB *Circular A-133*.

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. 22.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 22 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.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 28, 2014

INDEPENDENT SCHOOL DISTRICT NO. 22
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 Finding 02-01
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, 84.027A and 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	Yes

INDEPENDENT SCHOOL DISTRICT NO. 22
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDING

Audit Finding 02-01

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.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Fiscal Affairs Coordinator has access to enter invoices into the system, processes checks and has access to the digital signatures.
- The Fiscal Affairs Coordinator is able to receipt money, code receipts, enter receipts into the accounting system, prepare bank deposits, bring deposits to the bank and reconcile accounts receivable.
- The Fiscal Affairs Coordinator prepares and posts all journal entries.
- The Fiscal Affairs Coordinator prepares federal funding draw requests, submits the request and receipts the funds.
- Building secretaries responsible for collecting money also prepare deposits. There is also no independent review of receipt backup documentation by someone other than the building secretaries to ensure all money collected was deposited.
- The Payroll Coordinator is able to enter new employees and all related information.

Context:

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

INDEPENDENT SCHOOL DISTRICT NO. 22
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDING

Audit Finding 02-01 (Continued)

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. We further recommend that management review processes to determine if any systems could be automated or done in an electronic fashion to eliminate redundancies in processes.

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 review the current segregation of accounting duties to determine if further segregation is possible.
3. Official Responsible for Ensuring CAP
Doug Froke, 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS

There were no prior year federal award findings.



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 22
Detroit Lakes, 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. 22, Detroit Lakes, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated October 28, 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*. 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.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 28, 2014