INDEPENDENT SCHOOL DISTRICT NO. 194
LAKEVILLE, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2013

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 194

School Board and Administration
as of June 30, 2013

SCHOOL BOARD

	Term on Board Expires	Board Position
Roz Peterson	December 31, 2014	Chairperson
Jim Skelly	December 31, 2014	Vice Chairperson
Michelle Volk	December 31, 2014	Clerk
Robert Erickson	December 31, 2016	Treasurer
Judy Keliher	December 31, 2016	Director
Terry Lind	December 31, 2016	Director

ADMINISTRATION

Dr. Lisa Snyder	Superintendent
Randy Anderson	Executive Director of Business Services
Lori Helgemoe	Accounting Supervisor
Tony Massaros	Executive Director of Administrative Services
Barbara Knudsen	Executive Director of Teaching and Learning
Renae Ouillette	Executive Director of Student and Special Services

FINANCIAL SECTION

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 194
Lakeville, 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. 194, Lakeville, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year partial comparative information presented has been derived from the District's financial statements for the year ended June 30, 2012, and in our report dated October 8, 2012, we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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.

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

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

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which it was derived.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 introductory section, supplemental information, and other information section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)

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

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

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 30, 2013

This section of Independent School District No. 194, Lakeville, Minnesota's (the District) annual financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

The District's liabilities and deferred inflows of resources exceeded its assets by $34,417,162 at June 30, 2013. The District's total net position increased by $448,248 during the fiscal year ended June 30, 2013.

At June 30, 2013, the District's governmental funds reported a combined ending fund balance of $20,655,155 a decrease of $89,693,691 from the prior year. Most of this change was in the District's Debt Service Fund and Capital Projects – Building Construction Fund due to the use of refunding escrow assets from bonds issued in previous years to pay off refunded debt and capital projects being completed throughout the District.

The District's General Fund, its primary operating fund, ended the most recent fiscal year with a total fund balance of $9,763,330, a decrease of $322,310 from the prior year. The unassigned portion of the year-end fund balance was $7,294,275, which represents approximately 7.0 percent of annual General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the independent auditor's report, Management's Discussion and Analysis, and basic financial statements: including the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This financial section also contains required supplementary information and supplemental information, which includes the combining and individual fund statements and schedules and the other information section.

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

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

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

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. 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 government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Position
as of June 30, 2013 and 2012

	2013	2012
Assets		
Current and other assets	$ 55,575,540	$ 81,193,051
Restricted assets	–	85,544,437
Capital assets, net of depreciation	130,655,993	132,786,326
Total assets	**$ 186,231,533**	**$ 299,523,814**
Liabilities		
Current and other liabilities	$ 12,905,699	$ 36,237,654
Long-term liabilities	184,233,682	274,272,326
Total liabilities	**$ 197,139,381**	**$ 310,509,980**
Deferred inflows of resources		
Property taxes levied for subsequent years	**$ 23,509,314**	**$ 23,879,244**
Net position		
Net investment in capital assets	$ (29,699,500)	$ (30,732,082)
Restricted	4,434,818	3,415,431
Unrestricted	(9,152,480)	(7,548,759)
Total net position	**$ (34,417,162)**	**$ (34,865,410)**

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts. Another major factor in the determination of net position is the liability for long-term severance, which is basically unfunded. This impacts the unrestricted portion of net position.

The significant decrease in the current assets and current liabilities between fiscal 2012 and 2013 is due to the District issuing Aid Anticipation Certificates totaling $21.3 million in fiscal 2012 to assist with cash flow. The District's restricted assets and long-term liabilities decreased in the current year due to the issuance of new refunding bonds and the use of previously issued crossover refunding bonds to refund existing debt.

The District's total net position increased by $448,248 during the year ended June 30, 2013. The deficit unrestricted portion of net position increased by about $1.6 million during the year. The change in the unrestricted portion of net position is mostly related to the decrease in the General Fund balance combined with the increasing balance in the liability for unfunded other post-employment benefit pension obligations. The net investment in capital assets improvement in net position relates to the payments on outstanding debts exceeding depreciation on the related financed capital assets. The increase in restricted net position is mostly due to an increase in restricted net position for debt service.

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

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Program revenues		
Charges for services	$ 10,133,593	$ 9,714,900
Operating grants and contributions	14,876,163	16,620,400
Capital grants and contributions	1,635,868	1,174,781
General revenues		
Property taxes	32,483,453	32,654,771
General grants and aids	70,214,527	70,357,575
Other	2,586,533	3,740,211
Total revenues	131,930,137	134,262,638
Expenses		
Administration	5,807,672	5,582,549
District support services	2,855,116	3,355,217
Elementary and secondary regular instruction	47,809,728	45,859,708
Vocational education instruction	791,345	808,899
Special education instruction	21,630,107	20,141,842
Instructional support services	5,153,516	4,489,477
Pupil support services	10,595,217	10,338,362
Sites and buildings	9,364,744	9,857,792
Fiscal and other fixed cost programs	396,778	221,336
Food service	5,230,705	5,323,789
Community service	6,092,731	5,619,382
Depreciation not included in other functions	6,260,121	5,994,270
Interest and fiscal charges on debt	9,494,109	12,531,766
Total expenses	131,481,889	130,124,389
Change in net position	$ 448,248	$ 4,138,249

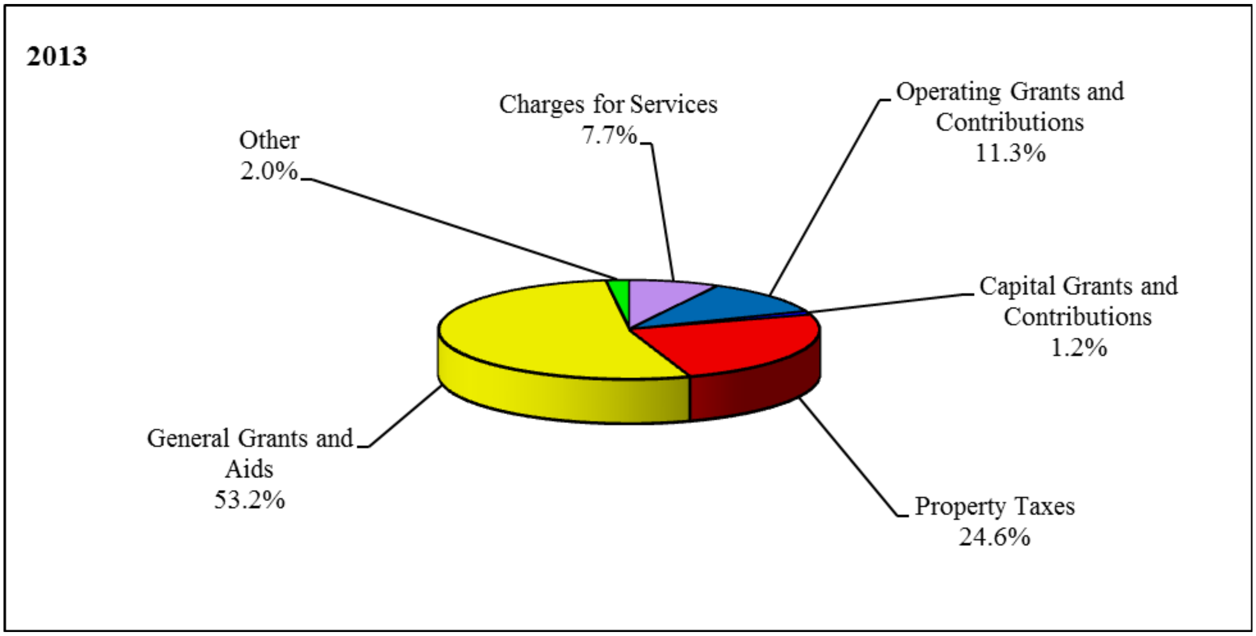
This statement is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

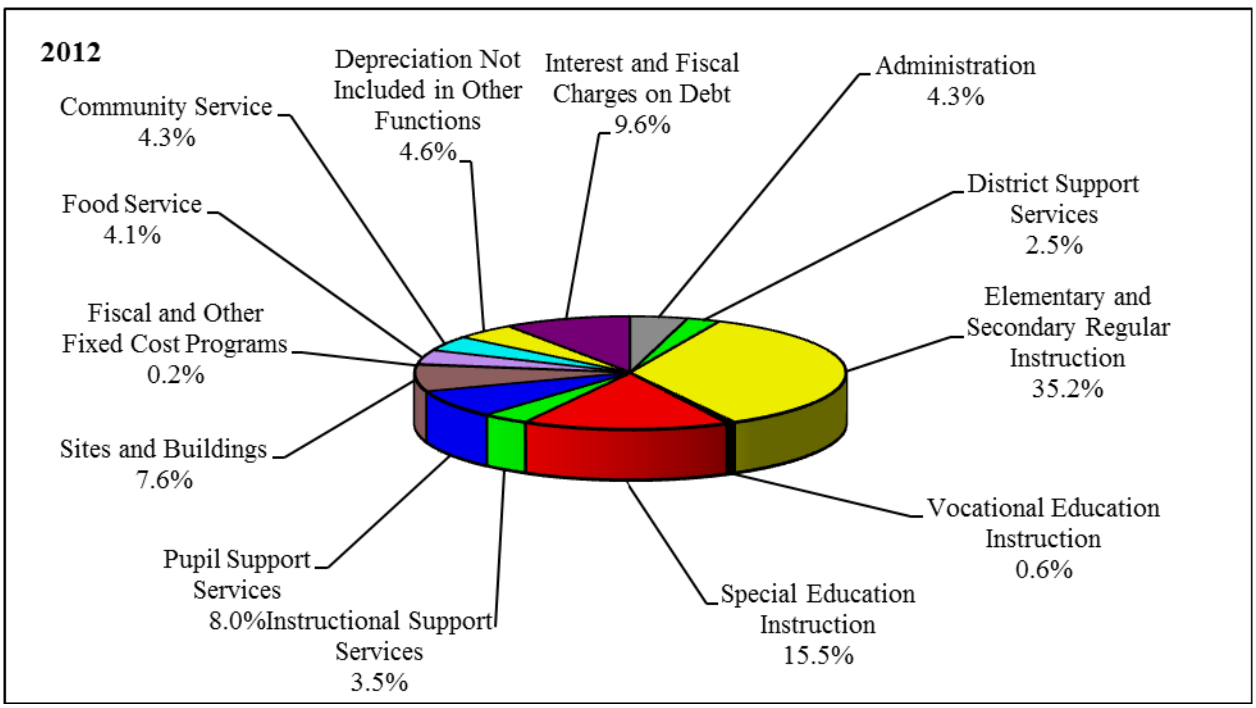
General grants and aids and property taxes accounted for 77.8 percent of the total revenue for the year. Operating grants and contributions accounted for 11.3 percent of revenue.

The significant decline in operating grants and contributions in fiscal 2013 relates to the elimination of the Education Jobs federal grant. Other revenues were lower than fiscal 2012 as interest earned on the debt service-refunding bond escrow accounts were lower as these accounts were used to refund outstanding debt during fiscal 2013. Similarly, interest expense on debt is significantly lower for the same reason.

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

Figure A – Sources of Revenues for Fiscal Years 2013 and 2012

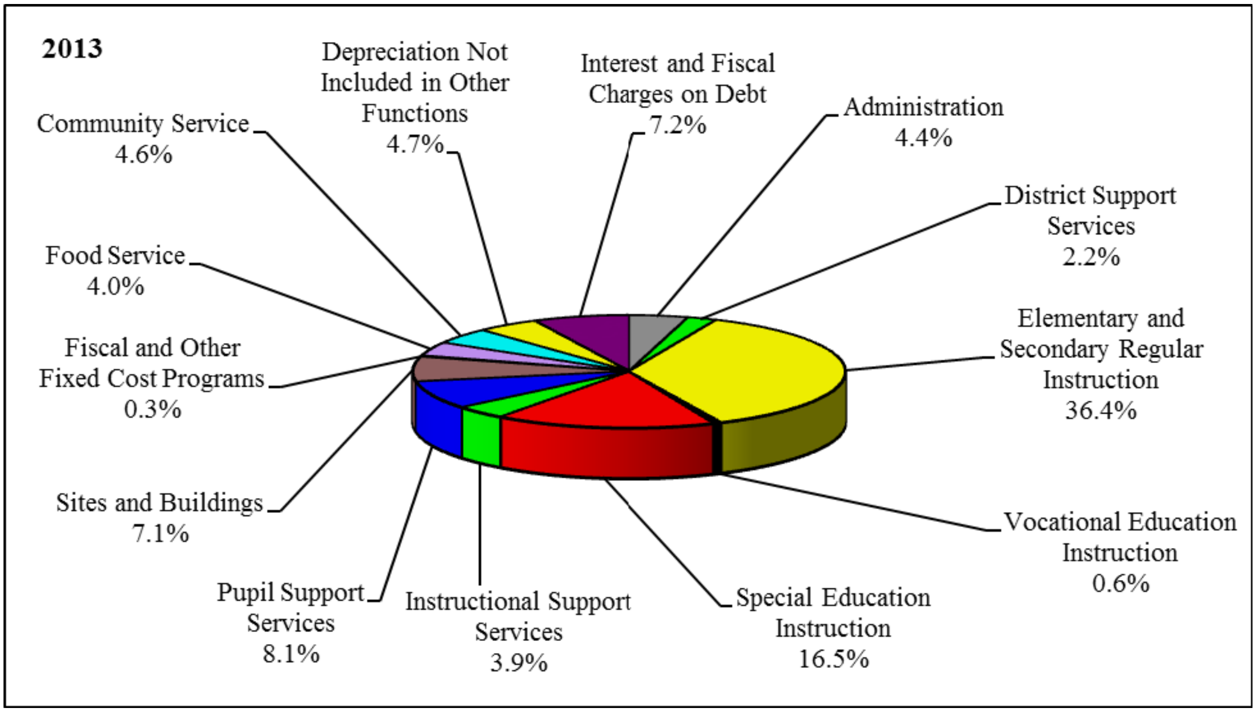


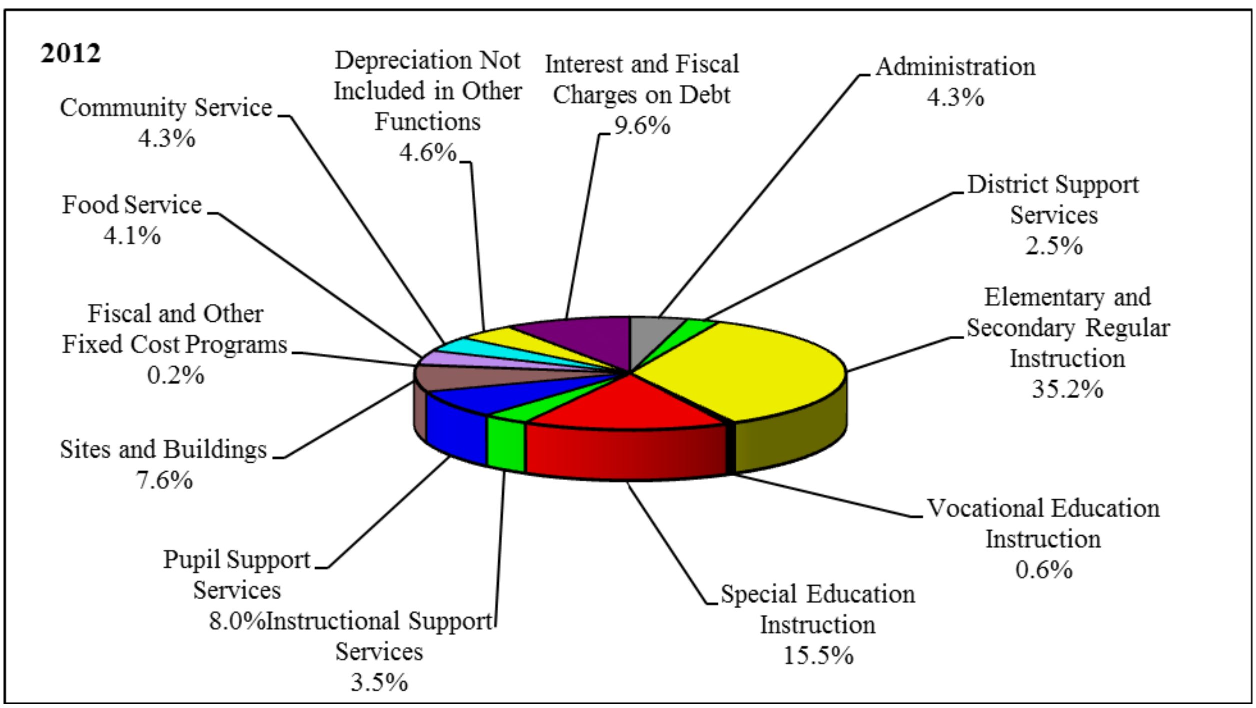


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position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

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

Figure B – Expenses for Fiscal Years 2013 and 2012





The District's expenses are predominately related to educating students. Approximately 57.4 percent of the District's expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Table 3
Governmental Fund Balances
as of June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Major funds			
General	$ 9,763,330	$ 10,085,640	$ (322,310)
Capital Projects – Building Construction	5,567,748	9,331,983	(3,764,235)
Debt Service			
Regular	3,158,231	3,167,121	(8,890)
Refunding Bond	–	85,546,623	(85,546,623)
Nonmajor funds			
Food Service Special Revenue	1,368,498	1,297,553	70,945
Community Service Special Revenue	797,348	919,926	(122,578)
Total governmental funds	$ 20,655,155	$ 110,348,846	$ (89,693,691)

The General Fund balance decreased by $322,310. General Fund revenues were under budget by $772,829, mostly due to lower than expected special education state aid.

The Capital Projects – Building Construction Fund balance decrease was planned and budgeted, and is a result of ongoing capital projects funded by the 2012B Alternative Facilities Bonds issued in the prior year.

The decrease in the Debt Service Fund is the result of the issuance of the 2012C School Building Refunding Bonds in the prior year and the 2012D Refunding Bonds in fiscal 2013, which were used to refund outstanding bonds and replace them with bonds that have a more favorable interest rate.

Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue and other financing sources	$ 102,713,627	$ 104,485,152	$ 1,771,525	1.7%
Expenditures	$ 104,192,149	$ 106,588,830	$ 2,396,681	2.3%

The District was required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. It is the District's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2013 Actual	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 103,714,072	$ (771,080)	(0.7%)	$ (372,480)	(0.4%)
Expenditures	104,036,382	$ (2,552,448)	(2.4%)	$ 4,844,398	4.9%
Net change in fund balances	$ (322,310)				

Revenue and other financing sources decreases in the current year were mostly related to the decrease in the federal grants offset by an increase in state aid due to an increase in the funding formula. Expenditure increases mainly occurred in the elementary and secondary regular and special education instruction programs for salaries and benefits totaling about $2.1 million, mainly due to contractual pay increases. Capital expenditures in the elementary and secondary regular instruction program were $0.8 million higher than the prior year due mainly to a new capital lease for computers.

Revenues were under budgeted amounts mainly due to less than anticipated special education state aid. Expenditures were under budget by $2.6 million mostly in elementary and secondary regular instruction and special education instruction programs due to savings on personnel costs and conservative budgeting for purchased services in the sites and buildings program, as this was the first operational year for the Crystal Lake Education Center.

Comments on Significant Activities in Other Funds

Analysis of the Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund revenue for fiscal 2013 totaled $14,610 and expenditures were $3,778,845. The June 30, 2013 fund balance of $5,567,748 is restricted for alternative facilities.

Analysis of the Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, alternative facilities, or for initial or refunding bonds. The June 30, 2013 fund balance is $3,158,231, a decrease from the prior fiscal year of $85,555,513. The fund balance decrease is due to the use of refunding escrow assets from bonds issued in previous years to pay off refunded debt, as previously discussed.

Analysis of Other Governmental Funds

The Community Service Special Revenue Fund experienced a decline in fund balance of $122,578 while the Food Service Special Revenue Fund experienced an increase in fund balance of $70,945 in the current year.

Internal Service Fund

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The District currently maintains one Internal Service Fund. This fund is used to account for the District's self-insured dental insurance function.

Operating revenues for the Internal Service Fund for fiscal 2013 totaled $1,122,208. Operating expenses totaled $1,011,972 for dental benefit claims.

The net position for the Internal Service Fund as of June 30, 2012 totaled $463,444.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2013 and 2012.

Table 6
Capital Assets

	2013	2012	Increase (Decrease)
Land	$ 5,022,023	$ 5,022,023	$ –
Land improvements	15,268,274	10,881,924	4,386,350
Buildings	193,739,261	193,739,261	–
Furniture and equipment	30,100,324	29,425,387	674,937
Construction in progress	1,341,677	1,643,331	(301,654)
Less accumulated depreciation	(114,815,566)	(107,925,600)	(6,889,966)
Total	$ 130,655,993	$ 132,786,326	$ (2,130,333)
Depreciation expense	$ 6,889,966	$ 6,665,368	$ 224,598

Long-Term Liabilities

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

Table 7
Outstanding Long-Term Liabilities

	2013	2012	Increase (Decrease)
General obligation bonds payable, net of premiums (discounts)	$ 164,142,107	$ 256,116,445	$ (91,974,338)
Capital leases payable	2,309,620	2,280,569	29,051
Severance benefits payable	9,555,578	9,378,152	177,426
Compensated absences payable	378,089	314,641	63,448
Net OPEB obligation	7,358,099	5,819,459	1,538,640
Net pension obligation	490,189	363,060	127,129
Total	$ 184,233,682	$ 274,272,326	$ (90,038,644)

The District's long-term liabilities decreased in the current year due to the refunding of the 2002A, 2002B, 2002C, 2005A, and 2006A bonds, which were replaced with bonds that have more favorable interest rates.

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

Table 8
Limitations on Debt

District's market value	$ 5,306,028,165
Limit rate	15.0%
Legal debt limit	$ 795,904,225

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts increased $50 per pupil in fiscal year 2013 to $5,224. The Legislature has added $78, or 1.5 percent, per pupil to the formula for fiscal year 2014. Beginning with the 2015 fiscal year several funding and pupil weighting changes are effective, which include an equivalent increase of $80, or 1.5 percent, for basic general education formula funding. A weakened economy and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Independent School District No. 194, 8670 – 210th Street West, Lakeville, Minnesota 55044.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Net Position
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	Governmental Activities	
	2013	2012
Assets		
Cash and temporary investments	$ 24,811,508	$ 31,810,771
Receivables		
Current taxes	17,514,816	17,623,850
Delinquent taxes	427,157	748,822
Accounts and interest receivable	237,529	102,685
Due from other governmental units	12,502,047	30,839,455
Inventory	77,470	67,368
Prepaid items	5,013	100
Restricted assets – temporarily restricted		
Cash and investments for debt service	–	84,309,196
Interest receivable for debt service refunding	–	1,235,241
Total restricted assets	–	85,544,437
Capital assets		
Not depreciated	6,363,700	6,665,354
Depreciated, net of accumulated depreciation	124,292,293	126,120,972
Total capital assets, net of accumulated depreciation	130,655,993	132,786,326
Total assets	$ 186,231,533	$ 299,523,814
Liabilities		
Aid anticipation certificates	$ –	$ 21,300,000
Salaries payable	8,392,534	7,717,850
Accounts and contracts payable	1,624,152	1,825,184
Accrued interest payable	2,263,266	4,757,719
Due to other governmental units	–	104,324
Unearned revenue	625,747	532,577
Long-term liabilities		
Due within one year	9,252,235	105,129,076
Due in more than one year	174,981,447	169,143,250
Total long-term liabilities	184,233,682	274,272,326
Total liabilities	197,139,381	310,509,980
Deferred inflows of resources		
Property taxes levied for subsequent year	23,509,314	23,879,244
Net position		
Net investment in capital assets	(29,699,500)	(30,732,082)
Restricted for		
Capital asset acquisition	667,284	720,254
Debt service	1,036,017	–
Food service	1,368,498	1,297,553
Other purposes (state funding restrictions)	1,363,019	1,397,624
Unrestricted	(9,152,480)	(7,548,759)
Total net position	(34,417,162)	(34,865,410)
Total liabilities, deferred inflows of resources, and net positioı	$ 186,231,533	$ 299,523,814

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Activities
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

		2013				2012
		Program Revenues			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities						
Administration	$ 5,807,672	$ 264,970	$ –	$ –	$ (5,542,702)	$ (5,310,357)
District support services	2,855,116	–	–	–	(2,855,116)	(3,355,217)
Elementary and secondary regular instruction	47,809,728	1,814,577	143,799	–	(45,851,352)	(41,967,366)
Vocational education instruction	791,345	–	51,932	–	(739,413)	(751,167)
Special education instruction	21,630,107	–	12,504,660	–	(9,125,447)	(7,638,331)
Instructional support services	5,153,516	–	–	–	(5,153,516)	(4,489,477)
Pupil support services	10,595,217	–	187,174	–	(10,408,043)	(10,338,362)
Sites and buildings	9,364,744	–	–	1,635,868	(7,728,876)	(8,683,011)
Fiscal and other fixed cost programs	396,778	–	–	–	(396,778)	(221,336)
Food service	5,230,705	3,915,719	1,329,965	–	14,979	(141,838)
Community service	6,092,731	4,138,327	658,633	–	(1,295,771)	(1,191,810)
Depreciation, not included in other functions	6,260,121	–	–	–	(6,260,121)	(5,994,270)
Interest and fiscal charges	9,494,109	–	–	–	(9,494,109)	(12,531,766)
Total governmental activities	$ 131,481,889	$10,133,593	$14,876,163	$ 1,635,868	(104,836,265)	(102,614,308)
General revenues						
Taxes						
Property taxes, levied for general purposes					15,653,080	15,996,916
Property taxes, levied for community service					1,065,281	1,117,922
Property taxes, levied for debt service					15,765,092	15,539,933
General grants and aids					70,214,527	70,357,575
Other general revenues					778,215	719,410
Investment earnings					1,808,318	3,020,801
Total general revenues					105,284,513	106,752,557
Change in net position					448,248	4,138,249
Net position – beginning					(34,865,410)	(39,003,659)
Net position – ending					$ (34,417,162)	$ (34,865,410)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Balance Sheet
Governmental Funds
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 5,192,010	$ 6,219,452	$ 9,929,315
Cash and investments held by trustee	–	–	–
Receivables			
Current taxes	8,641,300	–	8,319,141
Delinquent taxes	214,030	–	199,270
Accounts and interest	229,818	4,701	–
Due from other governmental units	12,408,168	–	1,722
Inventory	–	–	–
Prepaid items	5,013	–	–
Total assets	$ 26,690,339	$ 6,224,153	$ 18,449,448
Liabilities			
Aid anticipation certificates	$ –	$ –	$ –
Salaries payable	8,124,688	–	–
Accounts and contracts payable	754,311	656,405	–
Accrued interest payable	–	–	–
Due to other governmental units	–	–	–
Unearned revenue	53,606	–	–
Total liabilities	8,932,605	656,405	–
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	154,088	–	141,052
Property taxes levied for subsequent year	7,840,316	–	15,150,165
Total deferred inflows of resources	7,994,404	–	15,291,217
Fund balances			
Nonspendable	5,013	–	–
Restricted	759,457	5,567,748	3,158,231
Assigned	1,704,585	–	–
Unassigned	7,294,275	–	–
Total fund balances	9,763,330	5,567,748	3,158,231
Total liabilities, deferred inflows of resources, and fund balances	$ 26,690,339	$ 6,224,153	$ 18,449,448

See notes to basic financial statements

	Total Governmental Funds	
Nonmajor Funds	2013	2012
$ 2,916,302	$ 24,257,079	$ 31,357,458
–	–	84,309,196
554,375	17,514,816	17,623,850
13,857	427,157	748,822
3,010	237,529	1,337,926
92,157	12,502,047	30,839,455
77,470	77,470	67,368
–	5,013	100
$ 3,657,171	$ 55,021,111	$ 166,284,175
$ –	$ –	$ 21,300,000
267,846	8,392,534	7,717,850
122,451	1,533,167	1,725,079
–	–	167,634
–	–	104,324
572,141	625,747	532,577
962,438	10,551,448	31,547,464
10,054	305,194	508,621
518,833	23,509,314	23,879,244
528,887	23,814,508	24,387,865
77,470	82,483	67,468
2,088,376	11,573,812	101,023,184
–	1,704,585	1,478,522
–	7,294,275	7,779,672
2,165,846	20,655,155	110,348,846
$ 3,657,171	$ 55,021,111	$ 166,284,175

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	2013	2012
Total fund balances – governmental funds	$ 20,655,155	$ 110,348,846
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	245,471,559	240,711,926
Accumulated depreciation	(114,815,566)	(107,925,600)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(157,950,000)	(272,105,000)
Capital leases payable	(2,309,620)	(2,280,569)
Severance benefits payable	(9,555,578)	(9,378,152)
Compensated absences payable	(378,089)	(314,641)
Net OPEB obligation	(7,358,099)	(5,819,459)
Net pension obligation	(490,189)	(363,060)
Discount (premium) on bonds	(6,192,107)	15,988,555
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(2,263,266)	(4,590,085)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net	463,444	353,208
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	305,194	508,621
Total net position – governmental activities	$ (34,417,162)	$ (34,865,410)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 15,757,166	$ –	$ 15,857,089
Investment earnings (charges)	(2,517)	14,610	1,797,031
Other	2,856,013	–	–
State sources	81,704,543	–	12,670
Federal sources	2,597,783	–	422,964
Total revenue	102,912,988	14,610	18,089,754
Expenditures			
Current			
Administration	5,725,081	–	–
District support services	2,835,286	–	–
Elementary and secondary regular instruction	46,644,013	–	–
Vocational education instruction	768,404	–	–
Special education instruction	21,131,379	–	–
Instructional support services	5,093,924	–	–
Pupil support services	10,543,171	–	–
Sites and buildings	9,983,771	–	–
Fiscal and other fixed cost programs	391,070	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	3,778,845	–
Debt service			
Principal	770,284	–	9,900,000
Interest and fiscal charges	149,999	–	9,887,302
Total expenditures	104,036,382	3,778,845	19,787,302
Excess (deficiency) of revenue over expenditures	(1,123,394)	(3,764,235)	(1,697,548)
Other financing sources (uses)			
Refunding bond debt issued	–	–	43,885,000
Premium on debt issued	–	–	10,451,035
Bond refunding payments	–	–	(138,194,000)
Capital lease issued	799,335	–	–
Proceeds from sale of assets	1,749	–	–
Total other financing sources (uses)	801,084	–	(83,857,965)
Net change in fund balances	(322,310)	(3,764,235)	(85,555,513)
Fund balances			
Beginning of year	10,085,640	9,331,983	88,713,744
End of year	$ 9,763,330	$ 5,567,748	$ 3,158,231

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
$ 1,072,625	$ 32,686,880	$ 32,644,895
(806)	1,808,318	3,020,801
8,054,046	10,910,059	10,604,481
798,028	82,515,241	82,051,616
1,190,570	4,211,317	5,930,969
11,114,463	132,131,815	134,252,762
–	5,725,081	5,263,611
–	2,835,286	2,891,833
–	46,644,013	44,239,302
–	768,404	802,369
–	21,131,379	20,148,331
–	5,093,924	4,504,069
–	10,543,171	10,357,945
–	9,983,771	10,097,031
–	391,070	231,671
5,127,069	5,127,069	5,219,072
5,814,226	5,814,226	5,439,313
224,801	4,003,646	2,772,723
–	10,670,284	10,087,588
–	10,037,301	10,070,409
11,166,096	138,768,625	132,125,267
(51,633)	(6,636,810)	2,127,495
–	43,885,000	18,585,000
–	10,451,035	738,737
–	(138,194,000)	–
–	799,335	–
–	1,749	–
–	(83,056,881)	19,323,737
(51,633)	(89,693,691)	21,451,232
2,217,479	110,348,846	88,897,614
$ 2,165,846	$ 20,655,155	$ 110,348,846

INDEPENDENT SCHOOL DISTRICT NO. 194

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Total net change in fund balances – governmental funds	$ (89,693,691)	$ 21,451,232
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	4,759,633	3,190,059
Depreciation expense	(6,889,966)	(6,665,368)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	(44,684,335)	(18,585,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds	158,040,000	9,600,000
Capital leases	770,284	487,588
Governmental funds report debt issuance premiums and discounts as other financing sources or uses at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the government-wide financial statements.		
Premium on debt issuance	(10,451,035)	–
Unamortized accretion on refunded bonds	(9,946,000)	–
Amortization on premiums and discounts	(1,783,627)	(3,065,201)
Net pension obligations reported in the Statement of Activities do not require the use of current financial resources and are not reported in the governmental funds until actually due.	(127,129)	(171,048)
Net other post-employment benefit obligations reported in the Statement of Activities do not require the use of current financial resources and are not reported in the governmental funds until actually due.	(1,538,640)	(1,419,712)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	2,326,819	(134,893)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(177,426)	(614,338)
Compensated absences payable	(63,448)	(21,499)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	110,236	76,553
Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	(203,427)	9,876
Change in net position – governmental activities	$ 448,248	$ 4,138,249

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2013

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 15,282,321	$ 15,288,200	$ 15,757,166	$ 468,966
Investment earnings (loss)	–	–	(2,517)	(2,517)
Other	2,891,365	2,722,010	2,856,013	134,003
State sources	82,015,171	82,781,113	81,704,543	(1,076,570)
Federal sources	2,524,770	2,894,494	2,597,783	(296,711)
Total revenue	102,713,627	103,685,817	102,912,988	(772,829)
Expenditures				
Current				
Administration	5,387,498	5,499,985	5,725,081	225,096
District support services	2,960,582	3,054,113	2,835,286	(218,827)
Elementary and secondary regular instruction	46,233,647	47,711,746	46,644,013	(1,067,733)
Vocational education instruction	579,544	807,717	768,404	(39,313)
Special education instruction	21,707,521	21,699,152	21,131,379	(567,773)
Instructional support services	5,323,268	5,261,784	5,093,924	(167,860)
Pupil support services	9,919,911	10,644,183	10,543,171	(101,012)
Sites and buildings	11,185,531	10,765,503	9,983,771	(781,732)
Fiscal and other fixed cost programs	392,000	392,000	391,070	(930)
Debt service				
Principal	249,427	499,427	770,284	270,857
Interest and fiscal charges	253,220	253,220	149,999	(103,221)
Total expenditures	104,192,149	106,588,830	104,036,382	(2,552,448)
Excess (deficiency) of revenue over expenditures	(1,478,522)	(2,903,013)	(1,123,394)	1,779,619
Other financing sources				
Capital lease issued	–	799,335	799,335	–
Proceeds from sale of assets	–	–	1,749	1,749
Total other financing sources	–	799,335	801,084	1,749
Net change in fund balances	$ (1,478,522)	$ (2,103,678)	(322,310)	$ 1,781,368
Fund balances				
Beginning of year			10,085,640	
End of year			$ 9,763,330	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Net Position
Proprietary Fund
Internal Service Fund
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	2013	2012
Assets		
Current assets		
Cash and temporary investments	$ 554,429	$ 453,313
Liabilities		
Current liabilities		
Accounts payable	90,985	100,105
Net position		
Unrestricted	$ 463,444	$ 353,208

Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Operating revenue		
Charges for services	$ 1,122,208	$ 1,060,257
Operating expenses		
Dental claims and expenses	1,011,972	983,704
Operating income	110,236	76,553
Net position		
Beginning of year	353,208	276,655
End of year	$ 463,444	$ 353,208

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Statement of Cash Flows
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Cash flows from operating activities		
Received from assessments made to other funds	$ 1,122,208	$ 1,060,257
Payments for dental claims	(1,021,092)	(975,850)
Net cash provided by operating activities	101,116	84,407
Cash and temporary investments		
Beginning of year	453,313	368,906
End of year	$ 554,429	$ 453,313
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 110,236	$ 76,553
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in assets and liabilities		
Accounts payable	(9,120)	7,854
Net cash provided by operating activities	$ 101,116	$ 84,407

See notes to basic financial statements

Statement of Fiduciary Net Position
Fiduciary Funds
as of June 30, 2013

	Private-Purpose Trust Funds	Employee Benefit Trust Fund
Assets		
Cash and temporary investments	$ 184,326	$ –
Cash and temporary investments held by trustee	–	136,245
Accounts and interest receivable	182	–
Total assets	184,508	136,245
Liabilities		
Accounts and contracts payable	261	–
Net position		
Held in trust for employee benefits and other purposes	$ 184,247	$ 136,245

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	Private-Purpose Trust Funds	Employee Benefit Trust Fund
Additions		
Contributions		
Plan member contributions	$ –	$ 718,821
Other revenue	86,228	–
Investment earnings	361	–
Total additions	86,589	718,821
Deductions		
Benefits paid to plan members	–	714,774
Salaries	5,785	–
Employee benefits	848	–
Purchased services	81,217	–
Supplies and materials	11,693	–
Scholarships	1,000	–
Total deductions	100,543	714,774
Change in net position	(13,954)	4,047
Net position		
Beginning of year	198,201	132,198
End of year	$ 184,247	$ 136,245

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Independent School District No. 194, Lakeville, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District serves pre-kindergarten through 12th grade students attending the District either as a resident of the District or through an open enrollment option election. It is governed by a School Board elected by voters of the District to four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 internally directed revenues are reported instead as general revenues.

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

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

D. Fund Financial Statement Preparation

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

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

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Description of Funds

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

Major Governmental Funds

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

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, long-term bonded debt principal, interest, and other related costs.

Nonmajor Governmental Funds

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

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

Proprietary Fund

Internal Service Fund – The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The Internal Service Fund is used to account for and finance the uninsured risk of loss of the District's employee dental plan.

Fiduciary Funds

Employee Benefit Trust Fund – The Employee Benefit Trust Fund is used to administer resources received and held by the District as the trustee for others. The Employee Benefit Trust Fund includes the District's flexible benefit plan (Internal Revenue Code § 125 Cafeteria Plan).

Scholarship Private-Purpose Trust Fund – The Scholarship Private-Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties to award scholarships to students.

SORLA Private-Purpose Trust Fund – The SORLA Private-Purpose Trust Fund is used to account for resources held in trust to be used by the South of the River Learning Academy to provide programs to district staff.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Actual expenditures exceeded budget appropriations by $137,081 in the Capital Projects Building Construction Fund, and $3,734,477 in the Debt Service Fund for the year ended June 30, 2013.

F. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to those funds.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Employee Benefit Trust Fund, trust accounts are established for flexible benefits payable to employees. Interest earned on these investments was allocated directly to those accounts.

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

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the balance sheet date.

G. Receivables

All receivables are shown net of any allowance for uncollectible accounts. No allowances for uncollectible accounts have been recorded. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $8,387,107 of the property tax levy collectible in 2013 as revenue to the District in fiscal year 2012–2013. The remaining portion of the taxes collectible in 2013 is recorded as deferred inflow of resources (property taxes levied for subsequent year).

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

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

K. Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 15 to 40 years for land improvements and buildings, and 5 to 20 years for furniture and equipment.

Capital assets not being depreciated include land and construction in progress.

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

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

M. Compensated Absences Payable

1. **Vacation Pay** – Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Vacation pay is accrued when incurred in the government-wide financial statements. Unused vacation pay is accrued in governmental fund financial statements only when used or matured due to employee termination or similar circumstances.

2. **Sick Pay** – Substantially all district employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of an employee’s severance upon termination for certain bargaining units.

N. Severance

The District provides lump sum severance pay benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee’s unused accumulated sick leave. No individual can receive severance benefits in excess of one year’s salary. Members of certain employee groups may elect to receive district matching contributions paid into tax deferred matching contribution plans. Retirement benefits for certain employee groups are paid into post-employment tax sheltered annuity account.

Severance payable and the District’s share of related benefits are recorded as a liability in the government-wide statements as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements when the liability matures due to employee termination.

O. Risk Management and Self-Insurance

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers’ compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District’s insurance coverage in fiscal year 2013.

2. **Self-Insurance** – The District has established an Internal Service Fund to account for and finance its self-insured risk of loss for respective employee dental insurance plans. Under this plan, the Internal Service Fund provides coverage to participating employees and their dependents for dental costs as described in the plans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Changes in the Internal Service Fund's claim liabilities for the last two years were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2012	$ 92,251	$ 983,704	$ 975,850	$ 100,105
2013	$ 100,105	$ 1,011,972	$ 1,021,092	$ 90,985

P. Deferred Inflows of Resources

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's Executive Director of Business Services is authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

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

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

R. Net Position

In the government-wide financial statements, net position represent the difference between assets and liabilities and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

S. Statement of Cash Flows

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Use of Estimates

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

U. Changes in Accounting Principles

During the year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 created two new financial statement elements, *deferred outflows of resources* (a consumption of net position that is applicable to a future reporting period) and *deferred inflows of resources* (an acquisition of net position that is applicable to a future reporting period), which are distinct from assets and liabilities. It also defined *net position* as the residual of all other elements presented in a statement of net position (assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position). GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows or resources or inflows (revenues).

V. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	6,572,280
Investments		18,555,799
Cash on hand		4,000
Total	$	25,132,079

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Statement of Net Position		
Cash and temporary investments	$	24,811,508
Statement of Fiduciary Net Position		
Cash and temporary investments		184,326
Cash and temporary investments held by trustee		136,245
Total	$	25,132,079

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

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

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

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

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

At year-end, the carrying amount of the District's deposits was $6,572,280, while the balance on the bank records was $10,088,648. At June 30, 2013, all of the District's bank deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

	Credit Risk		Interest Risk – Maturity Duration in Years			
Investment Type	Rating	Agency	Less Than 1	1 to 5	5 to 10	Total
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund	AAA	S&P	N/A	N/A	N/A	$ 15,494,176
Minnesota Trust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	3,061,623
Total investments						$ 18,555,799

N/A – Not Applicable

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	$ 5,022,023	$ –	$ –	$ –	$ 5,022,023
Construction in progress	1,643,331	3,451,815	–	(3,753,469)	1,341,677
Total capital assets, not depreciated	6,665,354	3,451,815	–	(3,753,469)	6,363,700
Capital assets, depreciated					
Land improvements	10,881,924	632,881	–	3,753,469	15,268,274
Buildings	193,739,261	–	–	–	193,739,261
Furniture and equipment	29,425,387	674,937	–	–	30,100,324
Total capital assets, depreciated	234,046,572	1,307,818	–	3,753,469	239,107,859
Less accumulated depreciation for					
Land improvements	(2,301,391)	(826,654)	–	–	(3,128,045)
Buildings	(79,759,738)	(5,048,515)	–	–	(84,808,253)
Furniture and equipment	(25,864,471)	(1,014,797)	–	–	(26,879,268)
Total accumulated depreciation	(107,925,600)	(6,889,966)	–	–	(114,815,566)
Net capital assets, depreciated	126,120,972	(5,582,148)	–	3,753,469	124,292,293
Total capital assets, net	$ 132,786,326	$ (2,130,333)	$ –	$ –	$ 130,655,993

Depreciation expense of $6,889,966 for the year ended June 30, 2013 was charged to the following governmental functions:

Administration	$ 21,270
District support services	93,377
Elementary and secondary regular instruction	230,240
Vocational education instruction	8,415
Special education instruction	1,452
Instructional support services	6,409
Sites and buildings	235,400
Fiscal and other fixed cost programs	1,965
Food service	25,904
Community service	5,413
Depreciation not included in other functions	6,260,121
Total depreciation expense	$ 6,889,966

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
2006D Refunding Bonds	12/20/2006	4.14%	$ 72,415,000	08/01/2016	$ 72,415,000
2008A Alternative Facilities Bonds	05/09/2008	3.00–4.25%	$ 4,000,000	02/01/2022	3,600,000
2008B Refunding Bonds	11/20/2008	4.00–5.00%	$ 15,885,000	02/01/2018	14,295,000
2010A Alternative Facilities Bond	06/16/2010	5.00–5.05%	$ 8,800,000	06/01/2026	8,800,000
2012B Alternative Facilities Bond	05/17/2012	3.00%	$ 7,720,000	02/01/2025	7,720,000
2012C Refunding Bonds	05/17/2012	2.00–4.00%	$ 10,865,000	02/01/2015	7,235,000
2012D Refunding Bonds	11/06/2012	4.00-5.00%	$ 43,885,000	02/01/2022	43,885,000
Total general obligation bonds payable					$ 157,950,000

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

In December 2006, the District issued $72,415,000 of General Obligation Refunding Bonds, Series 2006D. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, the 2021 to 2024 maturities of the District's 2002A General Obligation Building Bonds and the 2014 through 2021 maturities of the District's 2002B General Obligation Building Bonds. The proceeds of the 2006D issue were placed in an escrow account pending the February 1, 2013 call date of the 2002A and 2002B issues. Until the call date, the District continued to make all debt service payments on the 2002A and 2002B issues. On the call date, the escrow account was used to call the remaining principal of these issues, and the District assumed the principal and interest payments on the 2006D issue. This "crossover refunding" reduced the District's total future debt service payments by $5,411,824 and resulted in a present value savings of approximately $3,380,529.

In May 2012, the District issued $10,865,000 of General Obligation Refunding Bonds, Series 2012C. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, the 2013 to 2015 maturities of the District's 2002C General Obligation Refunding Bonds. The proceeds of the 2012C issue were placed in an escrow account pending the August 1, 2012 call date of the 2002C issue. This refunding reduced the District's total future debt service payments by $685,348 and resulted in a present value savings of approximately $690,146.

In November 2012, the District issued $43,885,000 of General Obligation Refunding Bonds, Series 2012D. The proceeds of this issue and interest earned thereon will be used to refund, in advance of their stated maturities, the 2014 to 2022 maturities of the District's 2005A General Obligation Building Refunding Bonds and the 2014 to 2016 maturities of the District's 2006A General Obligation Alternative Facilities Bonds. The proceeds of the 2012D issue were placed in an escrow account pending the February 1, 2013 call date of the 2005A and 2006A issues. This refunding reduced the Districts total future debt service payments by $10,529,458 and resulted in a present value savings of approximately $10,532,999.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

The District's 2010A Taxable Alternative Facilities Bonds were issued as Qualified School Construction Bonds – Direct Pay, for which the District will receive a federal tax credit equal to 100 percent of the interest payment on this debt issue.

B. Capital Lease Obligations Payable

The District has entered into a capital lease agreement to finance the acquisition of a building. The lease requires semiannual payments of $62,246 commencing May 1, 2000 and ending April 1, 2015. The lease bears an interest rate of 3.96 percent.

The District has also entered a capital lease agreement to finance the acquisition of equipment. This lease bears an interest rate of 4.68 percent. This lease requires semiannual payments of $115,953 with payments ending in January 2022.

The District has also entered a capital lease agreement to finance the acquisition of computer equipment. This lease bears an interest rate of 2.99 percent. This lease requires annual payments of $276,153 with payments ending in July 2014.

The building and equipment assets acquired through the capital leases have been recorded in capital assets at estimated building and equipment costs of $1,326,000 and $2,500,000, respectively. These assets are being depreciated using a straight-line method over the life of the lease. The value of the individual assets acquired through the computer lease was below the District's capitalization threshold, so they were not recorded as capital assets. These lease obligations will be repaid through the General Fund.

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: severance benefits, pension benefits, other post-employment benefits (OPEB), and compensated absences. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid from the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund.

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and capital lease obligations are as follows:

Year Ending	General Obligation Bonds		Capital Lease Obligations	
June 30,	Principal	Interest	Principal	Interest
2014	$ 7,930,000	$ 7,612,195	$ 522,235	$ 110,316
2015	9,155,000	6,820,058	543,118	89,433
2016	10,040,000	6,454,858	163,032	68,874
2017	11,150,000	5,961,058	172,491	59,415
2018	13,205,000	5,411,008	182,498	49,407
2019–2023	81,220,000	16,127,914	726,246	85,424
2024–2026	25,250,000	1,865,475	–	–
	$ 157,950,000	$ 50,252,566	$ 2,309,620	$ 462,869

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

E. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
General obligation bonds payable	$ 272,105,000	$ 43,885,000	$ 158,040,000	$ 157,950,000	$ 7,930,000
Less premium (discount)	(15,988,555)	10,451,035	(11,729,627)	6,192,107	–
Total bonds payable	256,116,445	54,336,035	146,310,373	164,142,107	7,930,000
Capital leases payable	2,280,569	799,335	770,284	2,309,620	522,235
Severance benefits payable	9,378,152	640,703	463,277	9,555,578	400,000
Compensated absences payable	314,641	488,192	424,744	378,089	400,000
Net OPEB obligation (see Note 8)	5,819,459	2,344,296	805,656	7,358,099	–
Net pension obligation (see Note 9)	363,060	205,220	78,091	490,189	–
	$ 274,272,326	$ 58,813,781	$ 148,852,425	$ 184,233,682	$ 9,252,235

Note: Retirements for general obligation bonds payable includes unamortized accretion on refunded bonds.

NOTE 5 – SHORT-TERM BORROWING

The District's utilization of aid anticipation certificates for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	June 30, 2012	Additions	Retirements	June 30, 2013
07/07/2011	08/07/2012	1.50%	$ 9,000,000	$ –	$ (9,000,000)	$ –
04/19/2012	10/12/2012	1.00%	12,300,000	–	(12,300,000)	–
			$ 21,300,000	$ –	$ (21,300,000)	$ –

Interest and fiscal charges, net of amortization of issuance premiums of $37,725 were charged to the General Fund in fiscal 2013.

NOTE 6 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report.

A. Classifications

At June 30, 2013, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	$ 5,013	$ –	$ –	$ –	$ 5,013
Inventory	–	–	–	77,470	77,470
Total nonspendable	5,013	–	–	77,470	82,483
Restricted					
Health and safety	335,636	–	–	–	335,636
Operating capital	331,648	–	–	–	331,648
Safe schools	92,173	–	–	–	92,173
Alternative facilities	–	5,567,748	–	–	5,567,748
Debt service	–	–	3,158,231	–	3,158,231
Food service	–	–	–	1,291,028	1,291,028
Community education	–	–	–	467,116	467,116
Early childhood family education	–	–	–	96,950	96,950
School readiness	–	–	–	6,118	6,118
Community service	–	–	–	227,164	227,164
Total restricted	759,457	5,567,748	3,158,231	2,088,376	11,573,812
Assigned					
Subsequent year budget deficit	1,704,585	–	–	–	1,704,585
Unassigned	7,294,275	–	–	–	7,294,275
Total	$ 9,763,330	$ 5,567,748	$ 3,158,231	$ 2,165,846	$ 20,655,155

B. Fund Balance Policy

The School Board has formally adopted a fund balance policy. The purpose of this policy is to ensure financial stability of the District, to provide a sound basis to justify continuation of the strong financial rating, and to provide a reserve enabling the District to deal with unforeseen budget expenditures. The policy states that the District will endeavor to maintain a General Fund unassigned fund balance of 4 to 8 percent of General Fund expenditures (excluding categorical funding). At June 30, 2013, the unassigned fund balance of the General Fund was 7.3 percent of the General Fund expenditures (excluding categorical funding).

When the year-end General Fund unassigned fund balance is projected to decrease below 4 percent of the General Fund (excluding categorical funding) expenditures, the fund balance policy states the District shall initiate one or more of the following measures to ensure that the year-end General Fund balance for the budget year in question does stay between the 4–8 percent goal:

1. Reduce expenditures through implementation of cost containment measures.
2. Seek opportunities to increase revenue. Consider fee increases where appropriate. Examine options to increase enrollment.
3. If permitted by state law, requests from voters will made to create additional revenue through an increase in the operating referendum or other financial options.
4. A combination of a number of the above options.

The policy also states that when the fund balance in the General Fund budget approaches 4 percent, the District shall implement other budget control measures, which do not adversely affect delivery of instructional programs.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

The TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II as described below:

Tier I

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

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4–5.4 percent per year.

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

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

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

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

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.5 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2013 as employee contributions. The TRA employer contribution rates are 6.5 percent for Coordinated Plan members and 10.5 percent for Basic Plan members during fiscal year 2013. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2012, 2011, and 2010 were approximately $3.87 billion, $3.84 billion, and $3.79 billion, respectively.

The District's contributions for the years ended June 30, 2013, 2012, and 2011 were $3,161,156, $2,853,066, and $2,808,406, respectively, equal to the contractually required contributions for each year as set by state statutes.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent on July 1 of each year of the four-year period. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 percent.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (PERA)

A. Plan Description

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

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

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

Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. The GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2012. In 2012, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to GERF for the years ended June 30, 2013, 2012, and 2011 were $1,181,348, $985,590, and $1,146,585, respectively, equal to the contractually required contributions for each year as set by state statutes.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the District's OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. As of July 1, 2012, the plan had 1,292 active participants and 66 retired participants. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

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

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

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. There are no invested plan assets accumulated for payment of future benefits.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	2,440,841
Interest on net OPEB obligation		261,876
Adjustment to ARC		(358,421)
Annual OPEB cost (expense)		2,344,296
Contributions made		805,656
Increase in net OPEB obligation		1,538,640
Net OPEB obligation – beginning of year		5,819,459
Net OPEB obligation – end of year	$	7,358,099

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011, 2012, and 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 2,214,067	$ 651,630	29.4%	$ 4,399,747
June 30, 2012	$ 2,187,662	$ 767,950	35.1%	$ 5,819,459
June 30, 2013	$ 2,344,296	$ 805,656	34.4%	$ 7,358,099

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $19,128,773, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $19,128,773. The covered payroll (annual payroll of active employees covered by the plan) was $61,354,964, and the ratio of the UAAL to the covered payroll was 31.2 percent.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years, and a dental cost trend rate of 4.0 percent. A 2.5 percent inflation rate is included in these assumptions. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2012 for the various amortization layers ranged from 26–30 years.

NOTE 9 – PENSION BENEFITS PLAN

A. Plan Description

The District provides post-employment pension benefits to certain eligible employees through the District's Pension Benefits Plan, a single-employer defined benefit plan administered by the District. All pension benefits are based on contractual agreements with employee groups. As of July 1, 2012, the plan had 485 active participants and 1 retired participants. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

> The District offers pension benefits to several individuals and employee groups. Eligible employees (contracts stipulate a minimum number of years of service and a minimum age), can earn a lump sum pension benefit that differs by individual and bargaining unit. Some contracts also reduce the pension benefits by the total matching contribution made by the District to the employee's qualified retirement account over the course of that individual's employment with the District.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. There are no invested plan assets accumulated for payment of future benefits.

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on the ARC of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 25, 27, and 50. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District's net pension obligation to the plan:

ARC	$	211,099
Interest on net pension obligation		16,338
Adjustment to ARC		(22,217)
Annual pension cost (expense)		205,220
Contributions made		78,091
Increase in net pension obligation		127,129
Net pension obligation – beginning of year		363,060
Net pension obligation – end of year	$	490,189

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the years ended June 30, 2011, 2012, and 2013 are as follows:

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2011	$ 198,524	$ 143,709	72.4%	$ 192,012
June 30, 2012	$ 197,559	$ 26,511	13.4%	$ 363,060
June 30, 2013	$ 205,220	$ 78,091	38.1%	$ 490,189

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $1,565,270, and the actuarial value of assets was $0, resulting in a UAAL of $1,565,270. The covered payroll (annual payroll of active employees covered by the plan) was $16,063,619, and the ratio of the UAAL to the covered payroll was 9.7 percent.

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

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the District's own investments and a 3.0 percent rate of projected salary increase for all members. A 2.5 percent inflation rate is included in these assumptions. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2012 for the various amortization layers ranged from 26–30 years.

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits.

Before the beginning of the Plan year, which is from November 1 to October 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the health insurance portion of the Plan, whether or not such contributions have been made.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund.

Amounts withheld for medical reimbursement and dependant care are paid by the District to a trust account maintained by an outside administrator on a monthly basis. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependant care activity is included in the financial statements in the Employee Benefit Trust Fund.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to eligible healthcare and dependant care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – LEASE AGREEMENTS

A. Ice Arena Facilities

On December 1, 2006, the District (lessor) entered into a revised joint powers agreement with Lakeville Arenas (a Minnesota Joint Powers entity, as lessee), whereas Lakeville Arenas is responsible for leasing, operating, and maintaining ice arena facilities of the District. The District is required to annually pay 50 percent of any deficit of the operations not covered by revenue generated by the facilities. Separate financial statements prepared for the joint venture can be obtained by contacting the District or the City of Lakeville.

The joint powers agreement also calls for the District to provide for one-half of all future ice arena lease payments to the City of Lakeville Housing and Redevelopment Authority (HRA). Lease payments coincide with one-half of the bonded debt service schedule of the Ice Arena Lease Revenue Bonds, Series 2006 totaling $9,230,000, commencing February 1, 2007 and maturing February 1, 2032. Operating expenditures related to the joint powers agreement totaled $281,033 for the year ended June 30, 2013.

Future commitments on this lease are as follows:

Fiscal Year	Amount
2014	$ 284,070
2015	289,289
2016	296,583
2017	313,345
2018	318,758
2019–2023	1,604,225
2024–2028	1,617,950
2029–2032	988,204
	$ 5,712,424

B. Community Education Building

The District is leasing space in the building for educational use. The lease calls for monthly payments ranging from $9,223 to $11,848 and expires August 2017. Operating lease expenditures for the year ended June 30, 2013 were $120,295.

Future commitments on this lease are as follows:

Fiscal Year	Amount
2014	$ 125,545
2015	130,795
2016	136,045
2017	141,295
2018	23,695
	$ 557,375

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Construction Contracts

The District awarded contracts for construction and improvement of various properties. The District's commitment for uncompleted work on these contracts at June 30, 2013 was approximately $1,400,000.

B. Federal and State Receivables

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

C. Legal Contingencies

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

NOTE 13 – SUBSEQUENT EVENT

On August 15, 2013, the District entered into a capital lease for the purchase of technology equipment. This capital lease has three annual payments of $254,823 ending in August 2015.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 194

Required Supplementary Information
Schedules of Funding Progress
June 30, 2013

Other Post-Employment Benefits Plan

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	$ 15,481,229	$ –	$15,481,229	– %	$ 61,142,887	25.3 %
July 1, 2010	$ 17,350,474	$ –	$17,350,474	– %	$ 60,193,354	28.8 %
July 1, 2012	$ 19,128,773	$ –	$19,128,773	– %	$ 61,354,964	31.2 %

Pension Benefits Plan

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	$ 1,158,516	$ –	$ 1,158,516	– %	$ 16,762,604	6.9 %
July 1, 2010	$ 1,404,317	$ –	$ 1,404,317	– %	$ 16,305,687	8.6 %
July 1, 2012	$ 1,565,270	$ –	$ 1,565,270	– %	$ 16,063,619	9.7 %

Note 1: The Schedules of Funding Progress reflect information from the most recent actuarial reports.

Note 2: The UAAL was amortized on a level dollar basis over a period of 30 years for the July 1, 2008, 2010, and 2012 actuarial studies.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 194

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2013

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 1,560,804	$ 1,355,498	$ 2,916,302
Receivables			
Current taxes	–	554,375	554,375
Delinquent taxes	–	13,857	13,857
Accounts and interest	859	2,151	3,010
Due from other governmental units	1,040	91,117	92,157
Inventory	77,470	–	77,470
Total assets	$ 1,640,173	$ 2,016,998	$ 3,657,171
Liabilities			
Salaries payable	$ 63,772	$ 204,074	$ 267,846
Accounts and contracts payable	37,165	85,286	122,451
Unearned revenue	170,738	401,403	572,141
Total liabilities	271,675	690,763	962,438
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	–	10,054	10,054
Property taxes levied for subsequent year	–	518,833	518,833
Total deferred inflows of resources	–	528,887	528,887
Fund balances			
Nonspendable for inventory	77,470	–	77,470
Restricted	1,291,028	797,348	2,088,376
Total fund balances	1,368,498	797,348	2,165,846
Total liabilities, deferred inflows of resources, and fund balances	$ 1,640,173	$ 2,016,998	$ 3,657,171

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2013

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,072,625	$ 1,072,625
Investment earnings (charges)	(439)	(367)	(806)
Other	3,915,719	4,138,327	8,054,046
State sources	147,808	650,220	798,028
Federal sources	1,182,157	8,413	1,190,570
Total revenue	5,245,245	5,869,218	11,114,463
Expenditures			
Current			
Food service	5,127,069	–	5,127,069
Community service	–	5,814,226	5,814,226
Capital outlay	47,231	177,570	224,801
Total expenditures	5,174,300	5,991,796	11,166,096
Net change in fund balances	70,945	(122,578)	(51,633)
Fund balances			
Beginning of year	1,297,553	919,926	2,217,479
End of year	$ 1,368,498	$ 797,348	$ 2,165,846

General Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 5,192,010	$ 9,002,977
Receivables		
Current taxes	8,641,300	8,374,595
Delinquent taxes	214,030	375,089
Accounts and interest	229,818	98,910
Due from other governmental units	12,408,168	30,436,231
Prepaid items	5,013	100
Total assets	$ 26,690,339	$ 48,287,902
Liabilities		
Aid anticipation certificates	$ –	$ 21,300,000
Salaries payable	8,124,688	7,469,719
Accounts and contracts payable	754,311	1,329,706
Accrued interest payable	–	167,634
Due to other governmental units	–	104,324
Unearned revenue	53,606	41,815
Total liabilities	8,932,605	30,413,198
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	154,088	258,174
Property taxes levied for subsequent year	7,840,316	7,530,890
Total deferred inflows of resources	7,994,404	7,789,064
Fund balances		
Nonspendable for prepaid items	5,013	100
Restricted for health and safety	335,636	318,289
Restricted for operating capital	331,648	401,965
Restricted for safe schools	92,173	107,092
Assigned for subsequent year budget deficit	1,704,585	1,478,522
Unassigned	7,294,275	7,779,672
Total fund balances	9,763,330	10,085,640
Total liabilities, deferred inflows of resources, and fund balances	$ 26,690,339	$ 48,287,902

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 15,288,200	$ 15,757,166	$ 468,966	$ 16,003,168
Investment earnings (charges)	–	(2,517)	(2,517)	(1,878)
Other	2,722,010	2,856,013	134,003	2,856,450
State sources	82,781,113	81,704,543	(1,076,570)	80,715,856
Federal sources	2,894,494	2,597,783	(296,711)	4,512,956
Total revenue	103,685,817	102,912,988	(772,829)	104,086,552
Expenditures				
Current				
Administration				
Salaries	3,821,234	4,011,872	190,638	3,572,684
Employee benefits	1,443,779	1,451,357	7,578	1,400,114
Purchased services	74,558	90,209	15,651	100,392
Supplies and materials	81,360	81,698	338	83,544
Capital expenditures	25,722	24,176	(1,546)	55,708
Other expenditures	53,332	65,769	12,437	51,169
Total administration	5,499,985	5,725,081	225,096	5,263,611
District support services				
Salaries	1,424,711	1,448,711	24,000	1,349,697
Employee benefits	969,478	837,703	(131,775)	940,014
Purchased services	385,235	292,967	(92,268)	266,968
Supplies and materials	44,600	31,067	(13,533)	16,821
Capital expenditures	206,493	210,442	3,949	306,338
Other expenditures	23,596	14,396	(9,200)	11,995
Total district support services	3,054,113	2,835,286	(218,827)	2,891,833
Elementary and secondary regular instruction				
Salaries	32,311,150	32,008,276	(302,874)	31,206,226
Employee benefits	10,915,289	10,765,435	(149,854)	10,339,411
Purchased services	1,343,188	1,220,795	(122,393)	1,149,108
Supplies and materials	1,642,325	1,454,076	(188,249)	1,207,477
Capital expenditures	1,422,045	1,119,165	(302,880)	303,012
Other expenditures	77,749	76,266	(1,483)	34,068
Total elementary and secondary regular instruction	47,711,746	46,644,013	(1,067,733)	44,239,302

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	579,450	553,030	(26,420)	543,240
Employee benefits	203,965	191,642	(12,323)	216,413
Purchased services	7,873	7,872	(1)	6,655
Supplies and materials	16,199	15,630	(569)	35,179
Capital expenditures	–	–	–	732
Other expenditures	230	230	–	150
Total vocational education instruction	807,717	768,404	(39,313)	802,369
Special education instruction				
Salaries	13,715,320	13,415,939	(299,381)	12,936,134
Employee benefits	6,016,264	5,925,624	(90,640)	5,519,125
Purchased services	1,482,004	1,343,802	(138,202)	1,328,512
Supplies and materials	189,865	170,236	(19,629)	140,586
Capital expenditures	120,212	100,291	(19,921)	99,816
Other expenditures	175,487	175,487	–	124,158
Total special education instruction	21,699,152	21,131,379	(567,773)	20,148,331
Instructional support services				
Salaries	3,205,692	3,145,289	(60,403)	2,584,166
Employee benefits	1,211,658	1,262,089	50,431	1,044,893
Purchased services	433,557	293,494	(140,063)	284,549
Supplies and materials	335,903	324,210	(11,693)	225,898
Capital expenditures	72,319	67,883	(4,436)	361,274
Other expenditures	2,655	959	(1,696)	3,289
Total instructional support services	5,261,784	5,093,924	(167,860)	4,504,069
Pupil support services				
Salaries	3,079,407	3,118,647	39,240	2,986,731
Employee benefits	1,221,034	1,200,273	(20,761)	1,183,890
Purchased services	6,181,151	6,064,957	(116,194)	6,032,365
Supplies and materials	162,591	159,294	(3,297)	154,909
Other expenditures	–	–	–	50
Total pupil support services	10,644,183	10,543,171	(101,012)	10,357,945

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 194

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	3,247,577	3,327,492	79,915	2,990,515
Employee benefits	1,438,901	1,398,201	(40,700)	1,380,016
Purchased services	4,015,290	3,253,768	(761,522)	3,722,351
Supplies and materials	1,114,470	958,863	(155,607)	946,634
Capital expenditures	948,295	1,044,549	96,254	1,057,094
Other expenditures	970	898	(72)	421
Total sites and buildings	10,765,503	9,983,771	(781,732)	10,097,031
Fiscal and other fixed cost programs				
Purchased services	392,000	391,070	(930)	231,671
Debt service				
Principal	499,427	770,284	270,857	487,588
Interest and fiscal charges	253,220	149,999	(103,221)	168,234
Total debt service	752,647	920,283	167,636	655,822
Total expenditures	106,588,830	104,036,382	(2,552,448)	99,191,984
Excess (deficiency) of revenue over expenditures	(2,903,013)	(1,123,394)	1,779,619	4,894,568
Other financing sources				
Capital lease issued	799,335	799,335	–	–
Proceeds from sale of assets	–	1,749	1,749	–
Total other financing sources	799,335	801,084	1,749	–
Net change in fund balances	$ (2,103,678)	(322,310)	$ 1,781,368	4,894,568
Fund balances				
Beginning of year		10,085,640		5,191,072
End of year		$ 9,763,330		$ 10,085,640

INDEPENDENT SCHOOL DISTRICT NO. 194

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 1,560,804	$ 1,521,974
Receivables		
Accounts and interest	859	1,416
Due from other governmental units	1,040	–
Inventory	77,470	67,368
Total assets	$ 1,640,173	$ 1,590,758
Liabilities		
Salaries payable	$ 63,772	$ 66,741
Accounts and contracts payable	37,165	63,989
Unearned revenue	170,738	162,475
Total liabilities	271,675	293,205
Fund balances		
Nonspendable for inventory	77,470	67,368
Restricted for food service	1,291,028	1,230,185
Total fund balances	1,368,498	1,297,553
Total liabilities and fund balances	$ 1,640,173	$ 1,590,758

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings (charges)	$ –	$ (439)	$ (439)	$ (384)
Other – primarily meal sales	4,243,904	3,915,719	(328,185)	4,054,633
State sources	169,711	147,808	(21,903)	160,486
Federal sources	1,094,606	1,182,157	87,551	966,832
Total revenue	5,508,221	5,245,245	(262,976)	5,181,567
Expenditures				
Current				
Salaries	1,933,961	1,816,834	(117,127)	1,883,147
Employee benefits	524,086	500,072	(24,014)	519,299
Purchased services	177,200	172,011	(5,189)	191,020
Supplies and materials	2,634,650	2,435,595	(199,055)	2,426,133
Other expenditures	191,000	202,557	11,557	199,473
Capital outlay	101,000	47,231	(53,769)	38,849
Total expenditures	5,561,897	5,174,300	(387,597)	5,257,921
Net change in fund balances	$ (53,676)	70,945	$ 124,621	(76,354)
Fund balances				
Beginning of year		1,297,553		1,373,907
End of year		$ 1,368,498		$ 1,297,553

INDEPENDENT SCHOOL DISTRICT NO. 194

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 1,355,498	$ 1,228,201
Receivables		
Current taxes	554,375	612,787
Delinquent taxes	13,857	25,898
Accounts and interest	2,151	2,664
Due from other governmental units	91,117	242,545
Total assets	$ 2,016,998	$ 2,112,095
Liabilities		
Salaries payable	$ 204,074	$ 181,390
Accounts and contracts payable	85,286	89,848
Unearned revenue	401,403	328,287
Total liabilities	690,763	599,525
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	10,054	17,398
Property taxes levied for subsequent year	518,833	575,246
Total deferred inflows of resources	528,887	592,644
Fund balances		
Restricted for community education programs	467,116	604,566
Restricted for early childhood family education programs	96,950	136,017
Restricted for school readiness	6,118	8,706
Restricted for community service	227,164	170,637
Total fund balances	797,348	919,926
Total liabilities, deferred inflows of resources, and fund balances	$ 2,016,998	$ 2,112,095

INDEPENDENT SCHOOL DISTRICT NO. 194

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,118,600	$ 1,072,625	$ (45,975)	$ 1,117,105
Investment earnings (charges)	1,000	(367)	(1,367)	(300)
Other – primarily tuition and fees	4,254,200	4,138,327	(115,873)	3,693,398
State sources	633,800	650,220	16,420	725,193
Federal sources	7,100	8,413	1,313	8,981
Total revenue	6,014,700	5,869,218	(145,482)	5,544,377
Expenditures				
Current				
Salaries	3,663,587	3,611,148	(52,439)	3,383,532
Employee benefits	1,278,459	1,320,609	42,150	1,200,353
Purchased services	613,710	535,042	(78,668)	525,034
Supplies and materials	227,566	207,349	(20,217)	197,042
Other expenditures	137,598	140,078	2,480	133,352
Capital outlay	174,400	177,570	3,170	153,689
Total expenditures	6,095,320	5,991,796	(103,524)	5,593,002
Net change in fund balances	$ (80,620)	(122,578)	$ (41,958)	(48,625)
Fund balances				
Beginning of year		919,926		968,551
End of year		$ 797,348		$ 919,926

INDEPENDENT SCHOOL DISTRICT NO. 194

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 6,219,452	$ 9,573,824
Receivables		
Accounts and interest	4,701	(305)
Total assets	$ 6,224,153	$ 9,573,519
Liabilities		
Accounts and contracts payable	$ 656,405	$ 241,536
Fund balances		
Restricted for alternative facilities	5,567,748	9,331,983
Total liabilities and fund balances	$ 6,224,153	$ 9,573,519

INDEPENDENT SCHOOL DISTRICT NO. 194

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ –	$ 14,610	$ 14,610	$ 2,107
Expenditures				
Capital outlay				
Purchased services	687,821	409,833	(277,988)	334,637
Capital expenditures	2,953,943	3,369,012	415,069	2,245,548
Total expenditures	3,641,764	3,778,845	137,081	2,580,185
Excess (deficiency) of revenue over expenditures	(3,641,764)	(3,764,235)	(122,471)	(2,578,078)
Other financing sources				
Debt issued	–	–	–	7,420,464
Premium on debt issued	–	–	–	221,072
Total other financing sources	–	–	–	7,641,536
Net change in fund balances	$ (3,641,764)	(3,764,235)	$ (122,471)	5,063,458
Fund balances				
Beginning of year		9,331,983		4,268,525
End of year		$ 5,567,748		$ 9,331,983

INDEPENDENT SCHOOL DISTRICT NO. 194

Debt Service Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 9,929,315	$ 10,030,482
Cash and investments held by trustee	–	84,309,196
Receivables		
Current taxes	8,319,141	8,636,468
Delinquent taxes	199,270	347,835
Accounts and interest	–	1,235,241
Due from other governmental units	1,722	160,679
Total assets	$ 18,449,448	$ 104,719,901
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	$ 141,052	$ 233,049
Property taxes levied for subsequent year	15,150,165	15,773,108
Total deferred inflows of resources	15,291,217	16,006,157
Fund balances		
Restricted for bond refunding	–	85,546,623
Restricted for debt service	3,158,231	3,167,121
Total fund balances	3,158,231	88,713,744
Total deferred inflows of resources and fund balances	$ 18,449,448	$ 104,719,901

INDEPENDENT SCHOOL DISTRICT NO. 194

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 15,773,108	$ 15,857,089	$ 83,981	$ 15,524,622
Investment earnings	–	1,797,031	1,797,031	3,021,256
State sources	–	12,670	12,670	450,081
Federal sources	442,200	422,964	(19,236)	442,200
Total revenue	16,215,308	18,089,754	1,874,446	19,438,159
Expenditures				
Debt service				
Principal	8,017,885	9,900,000	1,882,115	9,600,000
Interest	8,029,940	9,576,258	1,546,318	9,705,195
Fiscal charges and other	5,000	311,044	306,044	196,980
Total expenditures	16,052,825	19,787,302	3,734,477	19,502,175
Excess (deficiency) of revenue over expenditures	162,483	(1,697,548)	(1,860,031)	(64,016)
Other financing sources (uses)				
Refunding bond debt issued	–	43,885,000	43,885,000	11,164,536
Premium on debt issued	–	10,451,035	10,451,035	517,665
Bond refunding payments	–	(138,194,000)	(138,194,000)	–
Total other financing sources (uses)	–	(83,857,965)	(83,857,965)	11,682,201
Net change in fund balances	$ 162,483	(85,555,513)	$ (85,717,996)	11,618,185
Fund balances				
Beginning of year		88,713,744		77,095,559
End of year		$ 3,158,231		$ 88,713,744

Combining Statement of Fiduciary Net Position
Fiduciary Funds
as of June 30, 2013

	Scholarship Private-Purpose Trust Fund	SORLA Private-Purpose Trust Fund	Total
Assets			
Cash and temporary investments	$ 167,567	$ 16,759	$ 184,326
Accounts and interest receivable	–	182	182
Total assets	167,567	16,941	184,508
Liabilities			
Current liabilities			
Accounts and contracts payable	–	261	261
Net position			
Held in trust for employee benefits and other purposes	$ 167,567	$ 16,680	$ 184,247

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	Scholarship Private-Purpose Trust Fund	SORLA Private-Purpose Trust Fund	Total
Additions			
Contributions			
Other revenue	$ –	$ 86,228	$ 86,228
Investment earnings	361	–	361
Total additions	361	86,228	86,589
Deductions			
Salaries	–	5,785	5,785
Employee benefits	–	848	848
Purchased services	–	81,217	81,217
Supplies and materials	–	11,693	11,693
Scholarships	1,000	–	1,000
Total deductions	1,000	99,543	100,543
Change in net assets	(639)	(13,315)	(13,954)
Net assets			
Beginning of year	168,206	29,995	198,201
End of year	$ 167,567	$ 16,680	$ 184,247

INDEPENDENT SCHOOL DISTRICT NO. 194

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2013

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	102,912,988	$	102,912,990	$	(2)
Total expenditures		$	104,036,382	$	104,036,385	$	(3)
Nonspendable							
460	Nonspendable fund balance	$	5,013	$	5,013	$	–
Restricted/reserve							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	335,636	$	335,636	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
411	Severance pay	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	331,648	$	331,648	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
446	First grade preparedness	$	–	$	–	$	–
449	Safe schools levy	$	92,173	$	92,173	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	1,704,585	$	1,704,585	$	–
Unassigned							
422	Unassigned fund balance	$	7,294,275	$	7,294,274	$	1
Food Service							
Total revenue		$	5,245,245	$	5,245,245	$	–
Total expenditures		$	5,174,300	$	5,174,300	$	–
Nonspendable							
460	Nonspendable fund balance	$	77,470	$	77,470	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	1,291,028	$	1,291,029	$	(1)
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	5,869,218	$	5,869,218	$	–
Total expenditures		$	5,991,796	$	5,991,796	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	467,116	$	467,116	$	–
432	ECFE	$	96,950	$	96,950	$	–
444	School readiness	$	6,118	$	6,118	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	227,164	$	227,164	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2013

		Audit		UFARS		Audit – UFARS	
Building Construction							
Total revenue		$	14,610	$	14,610	$	–
Total expenditures		$	3,778,845	$	3,778,844	$	1
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
407	Capital projects levy	$	–	$	–	$	–
409	Alternative facility program	$	5,567,748	$	5,567,749	$	(1)
413	Project funded by COP	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Debt Service							
Total revenue		$	18,089,754	$	18,089,754	$	–
Total expenditures		$	19,787,302	$	19,787,302	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
425	Bond refundings	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	3,158,231	$	3,158,231	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Trust							
Total revenue		$	805,410	$	805,410	$	–
Total expenditures		$	815,317	$	815,319	$	(2)
422	Net position	$	320,492	$	320,492	$	–
Internal Service							
Total revenue		$	1,122,208	$	1,122,208	$	–
Total expenditures		$	1,011,972	$	1,011,973	$	(1)
422	Net position	$	463,444	$	463,443	$	1
OPEB Revocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Irrevocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Debt Service Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
425	Bond refundings	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

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

OTHER INFORMATION SECTION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 194

Government-Wide Revenue by Type
Last Ten Fiscal Years

	Program Revenues			General Revenues			
Year Ended June 30,	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	Total
2004	$ 7,788,796	$ 10,443,996	$ 2,259,903	$ 18,056,760	$ 54,957,103	$ 1,966,242	$ 95,472,800
2005	7,977,864	11,146,757	2,317,112	20,337,572	59,781,056	1,788,720	103,349,081
2006	8,429,102	12,282,838	2,369,284	18,504,955	65,801,067	3,631,993	111,019,239
2007	8,640,140	11,976,917	1,408,268	24,588,515	67,932,806	5,230,456	119,777,102
2008	9,323,300	14,243,991	1,276,966	27,591,407	68,876,836	6,105,871	127,418,371
2009	10,001,986	12,938,523	1,148,310	30,471,499	70,359,504	4,891,195	129,811,017
2010	9,979,193	15,165,555	1,120,667	32,254,038	68,496,567	4,161,939	131,177,959
2011	10,122,056	16,041,809	1,067,339	40,398,857	59,516,852	3,507,063	130,653,976
2012	9,714,900	16,620,400	1,174,781	32,654,771	70,357,575	3,740,211	134,262,638
2013	10,133,593	14,876,163	1,635,868	32,483,453	70,214,527	2,586,533	131,930,137

INDEPENDENT SCHOOL DISTRICT NO. 194

Government-Wide Expenses by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services
2004	$ 4,848,316	$ 1,995,573	$ 36,591,510	$ 424,138	$ 13,729,749	$ 3,332,558	$ 8,213,572
2005	5,542,381	2,419,693	38,670,300	389,645	15,689,845	3,526,549	8,708,804
2006	6,254,375	2,485,369	42,659,422	579,217	17,870,973	3,782,227	9,526,954
2007	6,301,780	2,646,578	45,124,184	654,516	18,536,718	3,982,578	10,734,634
2008	6,782,254	3,346,984	46,174,166	595,326	18,855,088	3,988,236	9,163,882
2009	5,861,415	3,816,532	49,135,140	729,260	18,534,252	4,143,223	10,217,211
2010	5,480,013	4,038,852	47,673,865	885,351	19,157,054	4,050,916	10,164,501
2011	5,764,641	4,269,683	50,617,381	1,010,823	20,175,602	4,164,874	10,552,642
2012	5,582,549	3,355,217	45,859,708	808,899	20,141,842	4,489,477	10,338,362
2013	5,807,672	2,855,116	47,809,728	791,345	21,630,107	5,153,516	10,595,217

Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Included in Other Functions	Interest and Fiscal Charges	Total
$ 8,585,948	$ 450,179	$ 3,570,027	$ 4,595,555	$ 3,743,301	$ 9,460,570	$ 99,540,996
3,213,780	502,901	3,775,082	4,414,607	4,298,144	10,237,446	101,389,177
12,471,788	456,203	4,728,226	5,049,105	5,799,763	9,983,895	121,647,517
11,684,138	448,361	4,740,731	5,080,885	5,686,865	13,049,869	128,671,837
11,082,402	366,954	4,998,058	5,395,518	5,736,651	13,249,236	129,734,755
9,608,253	280,941	4,934,873	5,416,236	5,511,701	9,721,183	127,910,220
10,229,230	228,050	5,098,894	5,391,880	6,062,499	11,006,957	129,468,062
11,401,243	277,057	5,332,326	5,637,474	5,659,267	12,940,980	137,803,993
9,857,792	221,336	5,323,789	5,619,382	5,994,270	12,531,766	130,124,389
9,364,744	396,778	5,230,705	6,092,731	6,260,121	9,494,109	131,481,889

INDEPENDENT SCHOOL DISTRICT NO. 194

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2004	$ 8,432,717	$ 64,137,762	$ 2,074,235	$ 1,506,037	$ 76,150,751
	11%	84%	3%	2%	100%
2005	10,505,214	69,504,022	2,121,501	1,612,446	83,743,183
	13%	83%	2%	2%	100%
2006	8,135,892	76,125,997	2,325,311	1,980,296	88,567,496
	9%	86%	3%	2%	100%
2007	12,326,984	77,228,631	2,285,981	1,965,557	93,807,153
	13%	82%	3%	2%	100%
2008	14,016,439	80,347,027	2,240,807	2,114,274	98,718,547
	14%	82%	2%	2%	100%
2009	15,299,209	80,481,488	1,858,101	2,237,501	99,876,299
	15%	81%	2%	2%	100%
2010	16,277,805	73,051,186	9,641,501	2,534,279	101,504,771
	16%	72%	10%	2%	100%
2011	21,677,180	73,625,688	3,719,800	2,577,248	101,599,916
	21%	72%	4%	3%	100%
2012	16,003,168	80,715,856	4,512,956	2,854,572	104,086,552
	15%	78%	4%	3%	100%
2013	15,757,166	81,704,543	2,597,783	2,853,496	102,912,988
	15%	79%	3%	3%	100%

Note 1: In fiscal 2010, federal state fiscal stabilization funds replaced state revenue.

Note 2: In fiscal 2011, there was a shift of state revenue to local property tax levies due the recognition of the property tax shift as required by Minnesota Statutes.

General Fund Expenditures by Program
Last Ten Fiscal Years

	Current				
Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2004	$ 4,912,628	$ 1,982,829	$ 35,288,765	$ 424,138	$ 13,724,468
	6%	3%	46%	1%	18%
2005	5,345,041	2,291,024	37,151,381	389,645	15,684,914
	6%	3%	44%	1%	19%
2006	6,036,829	2,464,544	41,692,323	586,237	17,866,464
	7%	3%	45%	1%	19%
2007	6,032,973	2,642,027	43,794,701	649,532	18,545,428
	6%	3%	46%	1%	19%
2008	5,896,489	3,004,082	43,995,836	652,335	18,850,654
	6%	3%	46%	1%	20%
2009	5,263,205	3,542,611	47,060,977	720,845	18,527,816
	5%	4%	47%	1%	19%
2010	5,163,881	3,868,115	46,453,196	880,705	19,146,562
	5%	4%	47%	1%	19%
2011	5,579,823	4,074,481	49,055,503	1,006,177	20,188,657
	5%	4%	47%	1%	19%
2012	5,263,611	2,891,833	44,239,302	802,369	20,148,331
	5%	3%	45%	1%	20%
2013	5,725,081	2,835,286	46,644,013	768,404	21,131,379
	6%	3%	45%	1%	20%

Instructional Support Services	Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Debt Service	Total
$ 3,331,168	$ 8,083,668	$ 7,451,663	$ 448,779	$ 232,618	$ 75,880,724
4%	11%	10%	1%	–	100%
3,540,862	8,644,914	10,429,605	501,501	313,022	84,291,909
4%	10%	12%	1%	–	100%
3,781,227	9,515,259	9,428,800	454,918	397,718	92,224,319
4%	10%	10%	1%	–	100%
3,981,578	10,262,658	9,196,246	447,216	356,399	95,908,758
4%	11%	10%	–	–	100%
3,765,778	9,058,025	9,832,204	365,809	356,398	95,777,610
4%	10%	10%	–	–	100%
4,142,223	10,183,237	10,100,059	269,934	546,137	100,357,044
4%	10%	10%	–	–	100%
4,059,960	10,116,860	10,055,949	226,905	380,427	100,352,560
4%	10%	10%	–	–	100%
4,220,092	10,582,718	10,079,715	275,912	369,397	105,432,475
4%	10%	10%	–	–	100%
4,504,069	10,357,945	10,097,031	231,671	655,822	99,191,984
5%	10%	10%	–	1%	100%
5,093,924	10,543,171	9,983,771	391,070	920,283	104,036,382
5%	10%	9%	–	1%	100%

INDEPENDENT SCHOOL DISTRICT NO. 194

School Tax Levies, Tax Capacity Rates,
and Market Value Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2004	$ 10,276,549	$ 682,969	$ 9,576,010	$ 20,535,528
	2005	10,735,623	721,820	10,438,840	21,896,283
	2006	12,266,412	729,472	11,897,811	24,893,695
	2007	13,943,139	901,349	12,950,525	27,795,013
	2008	17,642,757	859,377	12,088,884	30,591,018
	2009	17,876,257	1,048,819	13,462,479	32,387,555
	2010	16,325,489	1,116,230	14,564,513	32,006,232
	2011	16,189,728	1,180,878	15,986,056	33,356,662
	2012	15,282,319	1,119,156	15,773,108	32,174,583
	2013	15,736,854	1,009,402	15,150,165	31,896,421
Tax capacity rates					
	2004	0.03873	0.01533	0.21495	0.26901
	2005	0.03717	0.01403	0.20291	0.25411
	2006	0.04170	0.01242	0.20258	0.25670
	2007	0.04505	0.01350	0.19397	0.25252
	2008	0.08101	0.01206	0.16965	0.26272
	2009	0.07428	0.01419	0.18215	0.27062
	2010	0.05475	0.01583	0.20656	0.27714
	2011	0.05938	0.01802	0.24398	0.32138
	2012	0.05364	0.01769	0.24928	0.32061
	2013	0.06467	0.01691	0.25377	0.33535
Market value rates					
	2004	0.00206	–	–	0.00206
	2005	0.00173	–	–	0.00173
	2006	0.00171	–	–	0.00171
	2007	0.16868	–	–	0.16868
	2008	0.17167	–	–	0.17167
	2009	0.17413	–	–	0.17413
	2010	0.18363	–	–	0.18363
	2011	0.19241	–	–	0.19241
	2012	0.18932	–	–	0.18932
	2013	0.00200	–	–	0.00200

Note: A tax rate based on market value is used for the District’s referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 194

Tax Capacities and Market Values
Last Ten Fiscal Years

			Tax Capacities	
			Fiscal Disparities	
For Taxes Collectible	Agricultural Valuation	Non-Agricultural Valuation	Contribution Valuation	Distribution Valuation
Dakota County				
2004	$ 588,483	$ 36,516,621	$ (2,297,761)	$ 3,793,155
2005	697,274	42,401,577	(2,656,241)	3,945,226
2006	772,583	48,703,703	(3,192,990)	4,201,817
2007	825,866	54,631,565	(3,563,324)	4,748,534
2008	897,074	57,726,450	(4,078,994)	5,349,119
2009	920,001	59,113,995	(4,533,844)	6,345,816
2010	920,725	56,651,346	(5,246,695)	6,602,943
2011	774,466	53,033,002	(5,452,303)	6,864,065
2012	741,467	50,367,396	(5,245,261)	6,327,814
2013	836,959	47,789,272	(5,156,246)	6,053,789
Scott County				
2004	$ 532,398	$ 6,009,081	$ (133,857)	$ 343,043
2005	581,914	7,529,021	(171,901)	395,209
2006	627,581	9,047,502	(189,813)	422,961
2007	659,603	10,877,924	(209,147)	491,503
2008	715,202	12,339,690	(230,407)	597,742
2009	761,576	12,847,060	(290,831)	743,205
2010	734,001	12,197,479	(299,240)	357,821
2011	576,846	11,140,943	(291,800)	842,927
2012	552,318	10,945,459	(343,116)	776,116
2013	594,994	10,404,058	(348,339)	687,152

Note: Market value is used primarily for extension of the District’s referendum levy.

Source: State of Minnesota School Tax Report

Tax Increment Valuation		Total Taxable Valuation		Market Value
$	(1,425,411)	$	37,175,087	$	3,295,463,600
	(1,530,755)		42,857,081		3,819,397,500
	(1,615,194)		48,869,919		4,390,863,400
	(1,783,731)		54,858,910		4,901,743,575
	(1,827,226)		58,066,423		5,151,200,775
	(1,791,005)		60,054,963		5,202,350,575
	(1,693,730)		57,234,589		4,932,009,775
	(904,389)		54,314,841		4,606,951,125
	(862,243)		51,329,173		4,524,275,083
	(863,946)		48,659,828		4,292,335,565
$	–	$	6,750,665	$	602,225,600
	–		8,334,243		745,774,700
	–		9,908,231		887,222,000
	–		11,819,883		1,051,872,500
	–		13,422,227		1,184,122,900
	–		14,061,010		1,224,707,200
	–		12,990,061		1,167,570,300
	–		12,268,916		1,061,026,100
	–		11,930,777		1,060,039,200
	–		11,337,865		1,013,692,600

INDEPENDENT SCHOOL DISTRICT NO. 194

Property Tax Levies and Receivables
Last Ten Fiscal Years

	Original Levy			
For Taxes Collectible	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2004	$ 18,194,875	$ 1,782,914	$ 557,739	$ 20,535,528
2005	19,351,174	2,043,142	501,967	21,896,283
2006	22,486,702	1,956,996	449,997	24,893,695
2007	25,181,724	2,217,375	395,914	27,795,013
2008	27,722,652	2,473,740	394,626	30,591,018
2009	28,954,049	3,038,743	394,763	32,387,555
2010	28,290,513	3,247,202	468,517	32,006,232
2011	29,240,816	3,500,400	615,446	33,356,662
2012	28,563,185	3,598,876	12,522	32,174,583
2013	28,447,001	3,430,270	19,150	31,896,421

Note 1: Delinquent taxes receivable are written off after seven years.

Note 2: A portion of the total spread levy is paid through various property tax credits which are paid through state aids.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2013			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
16,881	0.1	–	–
15,615	0.1	–	–
26,000	0.1	–	–
38,971	0.1	–	–
65,970	0.2	–	–
263,720	0.8	–	–
–	–	17,514,816	54.9
$ 427,157		$ 17,514,816	

INDEPENDENT SCHOOL DISTRICT NO. 194

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (Students Served or Tuition Paid) Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2004	95.80	714.95	4,857.38	4,745.91	10,414.04	11,957.35
2005	102.27	683.17	4,950.43	4,941.63	10,677.50	12,305.11
2006	109.31	717.23	5,003.06	5,100.58	10,930.18	12,593.32
2007	102.56	653.48	4,996.47	5,335.37	11,087.88	12,852.24
2008	111.26	702.90	5,006.42	5,372.04	11,192.62	12,983.00
2009	110.30	667.90	4,970.45	5,465.64	11,214.29	13,042.64
2010	110.87	648.89	4,906.06	5,476.44	11,142.26	12,975.18
2011	108.23	630.76	4,881.13	5,485.91	11,106.03	12,947.47
2012	111.47	602.87	4,724.27	5,440.28	10,878.89	12,703.14
2013	100.86	564.70	4,680.65	5,417.58	10,763.79	12,592.28

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2004 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2013	1.250	1.000	0.612	1.115	1.060	1.300

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 194

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	$ 61,272	
National School Lunch Program	10.555	1,104,685	
Special Milk Program for Children	10.556	16,200	
Total child nutrition cluster			1,182,157
U.S. Department of Education			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	2,057,300	
Special Education – Preschool Grants	84.173	49,248	
Total special education cluster			2,106,548
Special Education Grants for Infants and Families	84.181		37,783
Title I Grants to Local Educational Agencies	84.010		257,721
Improving Teacher Quality State Grants	84.367		104,147
English Language Acquisition State Grants	84.365		39,652
Adult Education – Basic Grants to States	84.002		8,413
Passed through Independent School District No. 196			
Career and Technical Education – Basic Grants to States	84.048		51,932
Total federal awards			$ 3,788,353

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

Note 2: Non-monetary assistance of $240,566 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

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

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

Program Title	Federal CFDA No.	Amount Provided
Title I – Grants to Local Education Agencies	84.010	$ 3,724

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

To the School Board and Management of
Independent School District No. 194
Lakeville, 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. 194, Lakeville, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

(continued)

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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*.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 30, 2013

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

To the School Board and Management of
Independent School District No. 194
Lakeville, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 194, Lakeville, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 30, 2013

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 194
Lakeville, 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. 194, Lakeville, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013–001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The District's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 30, 2013

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

A. SUMMARY OF AUDIT RESULTS

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

Financial Statements

What type of auditor's report is issued?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173

Threshold for distinguishing type A and B programs.	$ 300,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2013-001 Claims and Disbursements

Criteria – Minnesota Statutes § 471.425, Subd. 2, and § 471.38, Subd. 1

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For 4 of 25 disbursements selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – Four out of twenty-five disbursements tested were for claims not paid within thirty-five days. This is a current year finding.

Cause – This was an oversight by district personnel.

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

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

Corrective Action Plan

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

Official Responsible – Accounting Supervisor.

Planned Completion Date – June 30, 2014.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

E. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2013-001 Claims and Disbursements (continued)

Corrective Action Plan (continued)

Plan to Monitor – The Accounting Supervisor will review disbursement check runs to assure they have supporting documentation and are being paid within the required 35-day time period.

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

None.