

**WATERVILLE ELYSIAN MORRISTOWN
PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
TABLE OF CONTENTS
JUNE 30, 2014**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
--	----------

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
-------------------------------------	----------

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
---	----------

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	15
----------------------------------	-----------

STATEMENT OF ACTIVITIES	16
--------------------------------	-----------

BALANCE SHEET – GOVERNMENTAL FUNDS	18
---	-----------

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21
---	-----------

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	24
---	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – FOOD SERVICE FUND	25
--	-----------

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26
---	-----------

STATEMENT OF FIDUCIARY NET POSITION	27
--	-----------

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27
---	-----------

NOTES TO FINANCIAL STATEMENTS	28
--------------------------------------	-----------

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
TABLE OF CONTENTS
JUNE 30, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN	48
---	-----------

SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN FUND EQUITIES	49
---	-----------

SINGLE AUDIT AND OTHER REQUIRED REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	51
---	-----------

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	52
--	-----------

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	53
--	-----------

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	55
--	-----------

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	57
---	-----------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	58
--	-----------

SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AUDIT FINDINGS	62
--	-----------

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	63
--	-----------

EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

INDEPENDENT AUDITORS' REPORT	64
-------------------------------------	-----------

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS	66
---	-----------

NOTES TO FINANCIAL STATEMENTS	67
--------------------------------------	-----------

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING	68
--	-----------

INTRODUCTORY SECTION

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2014**

BOARD OF EDUCATION

Toya Schmidtke	Chairperson
Dan Houlihan	Vice Chairperson
Gary Michael	Treasurer
Jay Schneider	Clerk
Andrea Jewison	Director
Tom Little	Director
Wendy Atherton-Stoen	Director

ADMINISTRATION

Joel Whitehurst	Superintendent
Margaret Jewison	Business Manager

(This page intentionally left blank)

FINANCIAL SECTION

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2143
Waterville, 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. 2143, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2143 as of June 30, 2014, and the respective changes in financial position, and budgetary comparisons for General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Independent School District No. 2143's 2013 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Supplementary Information

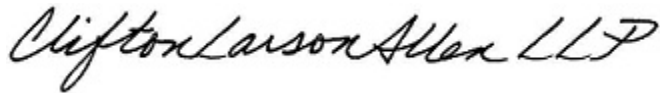
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2143's basic financial statements. The Schedule of Changes in Fund Equities and the Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Board of Education
Independent School District No. 2143

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of Independent School District No. 2143's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 Independent School District No. 2143's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of Independent School District No. 2143's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

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

- Overall General Fund revenues and other financing sources were \$9,511,015 compared to \$9,427,415 of expenditures.
- Revenues in the Food Service Fund were more than budgeted resulting in an increase to the fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section) and schedule of funding progress for postemployment benefit plan, the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

District-Wide Statements

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

The two district-wide statements report the District's *net position* and how they have changed. Net position (the difference between the District's assets and liabilities) is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds, the flexible benefit plan and the local collaborative time study grant. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position were \$4,314,786 on June 30, 2014.

	Governmental Activities		Percentage Change
	2014	2013	
Current and Other Assets	\$ 5,559,048	\$ 4,581,625	21.33%
Capital and Non-Current Assets	1,401,161	1,483,669	-5.56%
Total Assets	6,960,209	6,065,294	14.75%
Current Liabilities	1,015,091	767,130	32.32%
Long Term Liabilities	38,806	66,262	-41.44%
Total Liabilities	1,053,897	833,392	26.46%
Total Deferred Inflows of Resources	1,591,526	967,911	64.43%
Net Position			
Net Investment in Capital Assets	1,381,694	1,454,604	-5.01%
Restricted	360,949	221,263	63.13%
Unrestricted	2,572,143	2,588,124	-0.62%
Total Net Position	\$ 4,314,786	\$ 4,263,991	1.19%

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$10,189,923 for the year ended June 30, 2014. Property taxes and state formula aid accounted for 73.6% of total revenue for the year. (See Figure A-1.) Another 26.4% came from operating and capital grants, program revenues and investment earnings.

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

	Governmental Activities for the Fiscal Year Ended June 30.		Total % Change
	2014	2013	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 675,236	\$ 660,267	2.27%
Operating Grants and Contributions	1,954,911	2,037,954	-4.07%
Capital Grants and Contributions	50,897	38,058	33.74%
<u>General Revenues</u>			
Property Taxes	1,078,722	1,861,657	-42.06%
Unrestricted State Aid	6,314,713	5,026,871	25.62%
Investment Earnings	1,203	1,080	11.39%
Other	114,241	59,562	91.80%
Total Revenues	<u>10,189,923</u>	<u>9,685,449</u>	
Expenses			
Administration	564,473	575,245	-1.87%
District Support Services	318,511	359,192	-11.33%
Regular Instruction	4,429,948	4,349,060	1.86%
Vocational Education Instruction	136,198	126,881	7.34%
Special Education Instruction	1,652,859	1,657,836	-0.30%
Instructional Support Services	445,228	264,762	68.16%
Pupil Support Services	733,194	769,072	-4.67%
Sites and Buildings	1,152,673	926,112	24.46%
Fiscal and Other Fixed Cost Programs	44,566	38,681	15.21%
Food Service	454,804	464,277	-2.04%
Community Service	201,693	217,290	-7.18%
Interest and Fiscal Charges on Long-Term Liabilities	4,981	7,928	100.00%
Total Expenses	<u>10,139,128</u>	<u>9,756,336</u>	3.92%
Increase in Net Position	50,795	(70,887)	
Beginning Net Position	4,263,991	4,334,878	
Ending Net Position	<u>\$ 4,314,786</u>	<u>\$ 4,263,991</u>	

The total cost of all programs and services was \$10,139,128. Total revenues surpassed expenses, increasing net position \$50,795 from last year.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- Most of the District's costs were paid for by state and federal aid, and by the taxpayers of our state.
- A portion of the District's costs were paid for with \$1,078,722 in property taxes, \$6,430,157 of state aid based on the statewide education aid formula, and with investment earnings and other general education revenues.
- Some of the cost was paid by the users of the District's programs. That amount was \$675,236.
- The federal and state governments subsidized certain programs with grants and contributions of \$1,954,911.

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

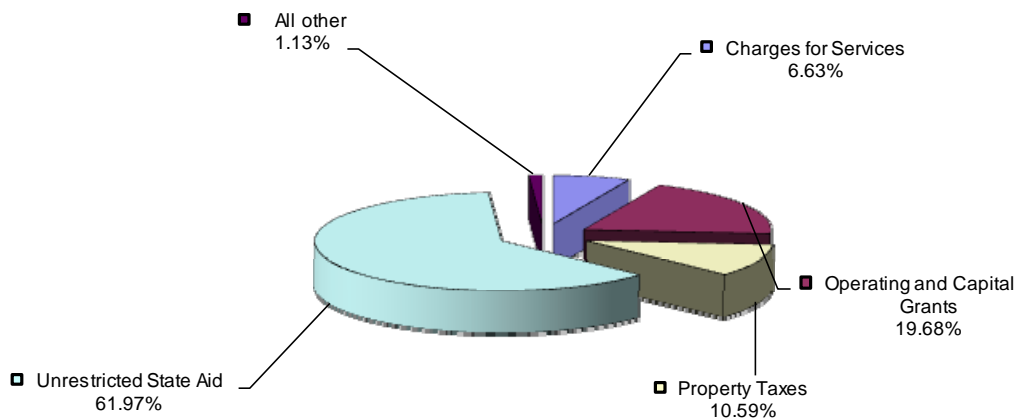
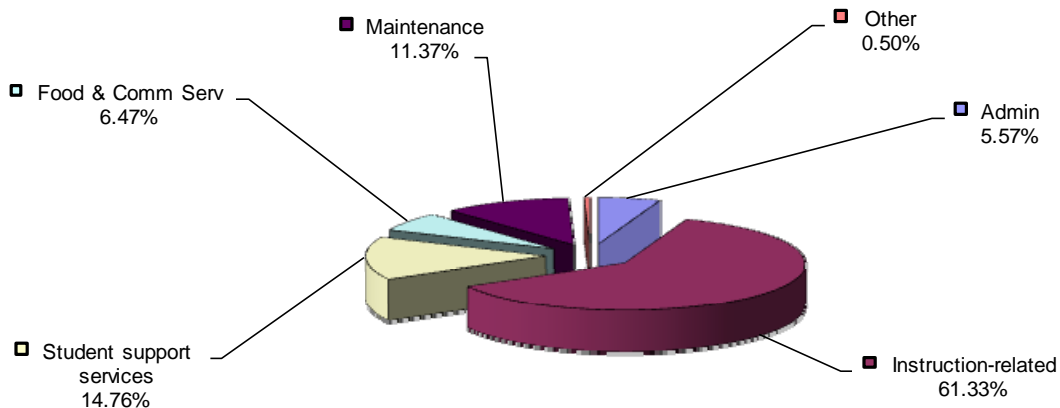


Figure A-2 District Expenses for Fiscal 2014



**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The District does not typically include a breakout of expenditures, as depicted in Figure A-2, in an analysis of all governmental funds. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the district, which are used for classroom instruction, but also include resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The above graph, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of the District.

**Table A-3
Change in Net Position**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2014	2013		2014	2013	
Administration	\$ 564,473	\$ 575,245	-1.87%	\$ 564,473	\$ 575,245	-1.87%
District Support Services	318,511	359,192	-11.33%	299,986	348,909	-14.02%
Regular Instruction	4,429,948	4,349,060	1.86%	3,578,777	3,428,456	4.38%
Vocational Education Instruction	136,198	126,881	7.34%	132,635	126,881	4.53%
Special Education Instruction	1,652,859	1,657,836	-0.30%	681,367	548,503	24.22%
Instructional Support Services	445,228	264,762	68.16%	336,191	264,762	26.98%
Pupil Support Services	733,194	769,072	-4.67%	703,557	717,845	-1.99%
Sites and Buildings	1,152,673	926,112	24.46%	1,043,240	831,634	25.44%
Fiscal and Other Fixed Cost Programs	44,566	38,681	15.21%	44,566	38,681	15.21%
Food Service	454,804	464,277	-2.04%	(18,808)	46,761	-140.22%
Community Service	201,693	217,290	-7.18%	87,119	84,452	3.16%
Interest and Fiscal Charges on Long-Term Liabilities	4,981	7,928	-37.17%	4,981	7,928	100.00%
Total	\$ 10,139,128	\$ 9,756,336	3.92%	\$ 7,458,084	\$ 7,020,057	6.24%

Note: Table A-3 reflects net program cost. General revenues are not included, only program revenues are reflected.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$2,941,631, as compared with \$2,813,231 last year.

Revenues and other financing sources for the District's governmental funds were \$10,211,727 while total expenditures were \$10,083,327.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND

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

Approximately 94% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

ENROLLMENT

Enrollment is a critical factor in determining revenue, with approximately 83% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has mainly decreased over the last five years.

**Table A-4
Five-Year Enrollment Trend
Average Daily Membership (ADM)**

Grade	2010	2011	2012	2013	2014
Kdgt. & ECSE	79	81	92	84	92
1-3	172	177	176	188	204
4-6	212	206	184	180	179
7-12	424	432	418	404	414
Total K-12 ADM	887	896	870	856	889
ADM Change	N/A	9	(26)	(14)	33
Percent Change	N/A	1.0%	-2.9%	-1.6%	3.9%

Enrollment in the 2013-2014 school year increased to result in a small increase over the last five years, which had a positive impact on the District's financial position, however this is considered an abnormality. It is anticipated that the downward trend previously experienced by the district will continue, as the pre-school population is declining steadily.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 1,057,020	\$ 1,768,135	\$ (711,115)	-40.2%
Earnings on Investments	1,150	991	159	16.0%
Other	404,977	358,858	46,119	12.9%
State Sources	7,604,319	6,417,997	1,186,322	18.5%
Federal Sources	425,186	444,322	(19,136)	-4.3%
Total General Fund Revenue	<u>\$ 9,492,652</u>	<u>\$ 8,990,303</u>	<u>\$ 502,349</u>	5.6%

Total General Fund Revenue increased by \$502,349 from the previous year mainly due to increases from State sources. The increase from prior year is due to increases in state sources revenue resulting from an increase in student enrollment. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 5,562,013	\$ 5,586,646	\$ (24,633)	-0.4%
Employee Benefits	2,000,049	1,869,847	130,202	7.0%
Purchased Services	909,827	761,064	148,763	19.5%
Supplies and Materials	506,245	458,575	47,670	10.4%
Capital Expenditures	406,892	168,277	238,615	141.8%
Other Expenditures	42,378	80,848	(38,470)	-47.6%
Total Expenditures	<u>\$ 9,427,404</u>	<u>\$ 8,925,257</u>	<u>\$ 502,147</u>	5.6%

Total General Fund Expenditures increased \$502,147 or 5.6% from the previous year.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

General Fund Budgetary Highlights

Actual revenues in the General Fund exceeded the final budget by \$230,200, with a net amount of \$192,926 coming from Property Taxes and State sources. The increase is mainly a result of the unexpected increase in enrollment.

OTHER MAJOR FUNDS

Revenues exceeded expenditures in the Food Service Fund by \$19,455.

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, the Food Service Fund experienced an increase in its fund balance of \$19,455. This is due to an increase in meal prices to keep up with federal requirements and increased expenditures for food.

Revenues exceeded expenditures in the Community Education Fund by \$25,334.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2014, the District had invested approximately \$7.6 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-7.) (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$219,620.

**Table A-7
The District's Capital Assets**

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Land	\$ 31,400	\$ 31,400	0.0%
Land Improvements	288,241	288,241	0.0%
Buildings and Improvements	5,104,248	5,104,248	0.0%
Equipment	2,225,685	2,177,272	2.2%
Less: Accumulated Depreciation	<u>(6,248,413)</u>	<u>(6,117,492)</u>	2.1%
Total	<u><u>\$ 1,401,161</u></u>	<u><u>\$ 1,483,669</u></u>	-5.6%

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Long-Term Liabilities

At year-end, the District had \$19,467 in capital lease obligations outstanding.

**Table A-8
The District's Long-Term Liabilities**

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Obligations Under Capital Leases	\$ 19,467	\$ 29,065	-33.02%
Other Postemployment Benefits Payable	30,017	46,795	-35.85%
Compensated Absences Payable	<u>27,079</u>	<u>27,382</u>	-1.11%
Total	<u><u>\$ 76,563</u></u>	<u><u>\$ 103,242</u></u>	-25.84%
Long-Term Liabilities:			
Due Within One Year	\$ 37,757	\$ 36,980	
Due in More Than One Year	<u>38,806</u>	<u>66,262</u>	
	<u><u>\$ 76,563</u></u>	<u><u>\$ 103,242</u></u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The declining enrollment experienced by the District in past years has a significant impact on the financial position, as funding is driven by enrollment. The State of Minnesota has implemented changes to K-12 Education Funding with positive impacts to the district, such as funding all-day kindergarten beginning in the 2014-2015 school year and increases to Special Education Funding beginning in the 2013-2014 school year.

The Operating Referendum currently in place will expire at the end of calendar year 2015. The District must closely monitor expenses to ensure they remain in-line with revenues.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Business Office, Independent School District No. 2143, 500 East Paquin Street, Waterville, Minnesota 56906.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)

	Governmental Activities	
	2014	2013
ASSETS		
Cash and Investments	\$ 3,328,187	\$ 2,002,614
Receivables		
Property Taxes	864,085	1,006,453
Other Governments	1,304,024	1,499,910
Other	15,040	12,822
Prepaid Items	28,048	36,076
Inventory	19,664	23,750
Capital Assets		
Land	31,400	31,400
Other Capital Assets, Net of Depreciation	1,369,761	1,452,269
Total Assets	<u>6,960,209</u>	<u>6,065,294</u>
LIABILITIES		
Salaries and Payroll Deductions Payable	898,692	673,082
Accounts Payable	50,000	36,094
Accrued Interest	58	86
Due to Other Governmental Units	20,807	12,866
Unavailable Revenue	7,777	8,022
Long-Term Liabilities		
Portion Due Within One Year	37,757	36,980
Portion Due in More Than One Year	38,806	66,262
Total Liabilities	<u>1,053,897</u>	<u>833,392</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	1,591,526	967,911
Total Deferred Inflows of Resources	<u>1,591,526</u>	<u>967,911</u>
NET POSITION		
Net Investment in Capital Assets	1,381,694	1,454,604
Restricted for:		
Operating Capital Purposes	32,532	112,618
State-Mandated Reserves	177,120	-
Food Service	68,734	49,279
Community Service	82,563	59,366
Unrestricted	2,572,143	2,588,124
Total Net Position	<u>\$ 4,314,786</u>	<u>\$ 4,263,991</u>

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 2143
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
Administration	\$ 564,473	\$ -	\$ -	\$ -
District Support Services	318,511	-	-	18,525
Regular Instruction	4,429,948	164,253	679,871	7,047
Vocational Education Instruction	136,198	-	3,486	77
Special Education Instruction	1,652,859	82,402	889,090	-
Instructional Support Services	445,228	-	109,035	2
Pupil Support Services	733,194	2,090	27,342	205
Sites and Buildings	1,152,673	84,392	-	25,041
Fiscal and Other Fixed Cost Programs	44,566	-	-	-
Food Service	454,804	243,680	229,932	-
Community Service	201,693	98,419	16,155	-
Interest and Fiscal Charges on Long-Term Liabilities	4,981	-	-	-
Total School District	<u>\$ 10,139,128</u>	<u>\$ 675,236</u>	<u>\$ 1,954,911</u>	<u>\$ 50,897</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Total General Revenues
 Change in Net Position
 Net Position - Beginning
 Net Position - Ending

See accompanying Notes to Financial Statements.

**Net (Expenses) Revenues
and Changes in Net Position**

<u>Total 2014</u>	<u>Total 2013</u>
\$ (564,473)	\$ (575,245)
(299,986)	(348,909)
(3,578,777)	(3,428,456)
(132,635)	(126,881)
(681,367)	(548,503)
(336,191)	(264,762)
(703,557)	(717,845)
(1,043,240)	(831,634)
(44,566)	(38,681)
18,808	(46,761)
(87,119)	(84,452)
(4,981)	(7,928)
(7,458,084)	(7,020,057)
1,035,346	1,774,586
43,376	87,071
6,314,713	5,026,871
1,203	1,080
114,241	59,562
7,508,879	6,949,170
50,795	(70,887)
4,263,991	4,334,878
\$ 4,314,786	\$ 4,263,991

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 3,181,334	\$ 13,484	\$ 133,369
Receivables			
Current Property Taxes	770,520	-	44,950
Delinquent Property Taxes	47,810	-	805
Due from Other Minnesota School Districts	80,202	-	-
Due from Minnesota Department of Education	751,527	4,931	526
Due from Federal through Minnesota Department of Education	421,700	45,138	-
Other Receivables	9,343	-	5,697
Due from Other Funds	-	-	-
Prepaid Items	28,048	-	-
Inventory	-	19,664	-
Total Assets	<u>\$ 5,290,484</u>	<u>\$ 83,217</u>	<u>\$ 185,347</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 882,777	\$ 7,305	\$ 8,610
Accounts and Contracts Payable	43,932	101	5,967
Due to Other Governmental Units	20,807	-	-
Due to Other Funds	-	-	-
Unearned Revenue	-	7,077	700
Total Liabilities	<u>947,516</u>	<u>14,483</u>	<u>15,277</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	1,504,019	-	87,507
Unavailable Revenue - Delinquent Property Taxes	47,810	-	805
Total Deferred Inflows of Resources	<u>1,551,829</u>	<u>-</u>	<u>88,312</u>
Fund Balance			
Nonspendable			
Prepaid Items	28,048	-	-
Inventory	-	19,664	-
Restricted for			
Staff Development	16,456	-	-
Deferred Maintenance	403	-	-
Levy Reduction	17,403	-	-
Learning and Development	32,827	-	-
Gifted and Talented	1,020	-	-
Basic Skills Programs	2,166	-	-
Health and Safety	(16,856)	-	-
Operating Capital	32,532	-	-
Disabled Accessibility	2,276	-	-
Safe School Crime	24,893	-	-
Community Education Programs	-	-	31,539
Early Childhood and Family Educations Programs	-	-	32,735
School Readiness	-	-	8,061
Other Purposes	-	49,070	9,423
Assigned for			
Separation/Retirement Benefits	96,000	-	-
Unassigned	2,553,971	-	-
Total Fund Balance	<u>2,791,139</u>	<u>68,734</u>	<u>81,758</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 5,290,484</u>	<u>\$ 83,217</u>	<u>\$ 185,347</u>

See accompanying Notes to Financial Statements.

**Total Governmental
Funds**

<u>2014</u>	<u>2013</u>
\$ 3,328,187	\$ 2,002,614
815,470	936,034
48,615	70,419
80,202	102,214
756,984	987,268
466,838	410,428
15,040	12,822
-	8,513
28,048	36,076
19,664	23,750
<u>\$ 5,559,048</u>	<u>\$ 4,590,138</u>
\$ 898,692	\$ 673,082
50,000	36,094
20,807	12,866
-	8,513
<u>7,777</u>	<u>8,022</u>
977,276	738,577
1,591,526	967,911
48,615	70,419
<u>1,640,141</u>	<u>1,038,330</u>
28,048	36,076
19,664	23,750
16,456	-
403	31,072
17,403	17,403
32,827	20,414
1,020	1,880
2,166	15,702
(16,856)	(167,130)
32,532	112,618
2,276	2,276
24,893	21,047
31,539	17,860
32,735	25,945
8,061	899
58,493	37,249
96,000	76,000
<u>2,553,971</u>	<u>2,540,170</u>
<u>2,941,631</u>	<u>2,813,231</u>
<u>\$ 5,559,048</u>	<u>\$ 4,590,138</u>

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	2014	2013
Total Fund Balance for Governmental Funds	\$ 2,941,631	\$ 2,813,231
<p>Total net position reported for governmental activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:</p>		
Land	31,400	31,400
Land Improvements, Net of Accumulated Depreciation	17,252	18,914
Buildings and Improvements, Net of Accumulated Depreciation	787,901	860,613
Equipment, Net of Accumulated Depreciation	564,608	572,742
<p>Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.</p>		
	48,615	70,419
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(58)	(86)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p>		
Obligations Under Capital Leases	(19,467)	(29,065)
Compensated Absences Payable	(27,079)	(27,382)
Other Postemployment Benefits Payable	(30,017)	(46,795)
Total Net Position of Governmental Activities	\$ 4,314,786	\$ 4,263,991

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	Major Funds		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 1,057,020	\$ -	\$ 43,506
Earnings on Investments	1,150	10	43
Other	404,977	243,680	122,457
State Sources	7,604,319	19,840	61,084
Federal Sources	425,186	210,092	-
Total Revenues	<u>9,492,652</u>	<u>473,622</u>	<u>227,090</u>
EXPENDITURES			
Current			
Administration	562,524	-	-
District Support Services	338,155	-	-
Regular Instruction	4,360,649	-	-
Vocational Education Instruction	129,834	-	-
Special Education Instruction	1,645,507	-	-
Instructional Support Services	391,720	-	-
Pupil Support Services	658,382	-	-
Sites and Buildings	876,926	-	-
Fiscal and Other Fixed Cost Programs	44,566	-	-
Food Service	-	454,032	-
Community Service	-	-	201,336
Capital Outlay	406,892	135	420
Debt Service			
Principal	9,598	-	-
Interest and Fiscal Charges	2,651	-	-
Total Expenditures	<u>9,427,404</u>	<u>454,167</u>	<u>201,756</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	65,248	19,455	25,334
OTHER FINANCING SOURCES			
Insurance Recovery Proceeds	18,363	-	-
Total Other Financing Sources	<u>18,363</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	83,611	19,455	25,334
Fund Balances - Beginning	2,707,528	49,279	56,424
Fund Balances - Ending	<u>\$ 2,791,139</u>	<u>\$ 68,734</u>	<u>\$ 81,758</u>

See accompanying Notes to Financial Statements.

**Total Governmental
Funds**

<u>2014</u>	<u>2013</u>
\$ 1,100,526	\$ 1,856,959
1,203	1,080
771,114	702,653
7,685,243	6,466,875
635,278	632,083
10,193,364	9,659,650
562,524	572,354
338,155	343,103
4,360,649	4,266,765
129,834	125,528
1,645,507	1,658,012
391,720	253,314
658,382	692,233
876,926	749,191
44,566	38,681
454,032	459,449
201,336	218,288
407,447	168,277
9,598	52,235
2,651	5,564
10,083,327	9,602,994
110,037	56,656
18,363	21,101
18,363	21,101
128,400	77,757
2,813,231	2,735,474
\$ 2,941,631	\$ 2,813,231

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	2014	2013
Net Change in Fund Balance-Total Governmental Funds	\$ 128,400	\$ 77,757
 Amounts reported for governmental activities in the statement of activities are different because:		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlays	143,202	32,034
Loss on Disposal of Capital Assets	(6,090)	-
Depreciation Expense	(219,620)	(227,588)
 Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Change in Accrued Interest Expense - Capital Leases	28	(6)
Repayment of Capital Lease Principal	9,598	52,235
 Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are shown as a deferred inflow of resources in the funds.	 (21,804)	 4,698
 In the statement of activities, certain operating expenses - other postemployment benefits payable and compensated absences payable - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	 <u>17,081</u>	 <u>(10,017)</u>
Change in Net Position of Governmental Activities	<u>\$ 50,795</u>	<u>\$ (70,887)</u>

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 1,821,806	\$ 1,797,322	\$ 1,057,020	\$ (740,302)
Earnings on Investments	700	950	1,150	200
Other	400,223	364,133	404,977	40,844
State Sources	6,421,642	6,671,091	7,604,319	933,228
Federal Sources	450,770	428,956	425,186	(3,770)
Total Revenues	9,095,141	9,262,452	9,492,652	230,200
EXPENDITURES				
Current:				
Administration	571,512	612,182	562,524	(49,658)
District Support Services	312,793	338,233	338,155	(78)
Regular Instruction	4,260,453	4,422,754	4,360,649	(62,105)
Vocational Education Instruction	129,098	131,058	129,834	(1,224)
Special Education Instruction	1,684,714	1,717,188	1,645,507	(71,681)
Instructional Support Services	378,173	348,976	391,720	42,744
Pupil Support Services	687,789	663,102	658,382	(4,720)
Sites and Buildings	747,114	800,430	876,926	76,496
Fiscal and Other Fixed Cost Programs	39,155	39,155	44,566	5,411
Capital Outlay	437,978	435,278	406,892	(28,386)
Debt Service				
Principal	7,750	9,598	9,598	-
Interest and Fiscal Charges	4,500	2,652	2,651	(1)
Total Expenditures	9,261,029	9,520,606	9,427,404	(93,202)
Excess of Revenues Over Expenditures	(165,888)	(258,154)	65,248	323,402
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	-	-	18,363	18,363
Total Other Financing Sources	-	-	18,363	18,363
Net Change in Fund Balances	<u>\$ (165,888)</u>	<u>\$ (258,154)</u>	83,611	<u>\$ 341,765</u>
FUND BALANCE				
Beginning of Year			2,707,528	
End of Year			<u>\$ 2,791,139</u>	

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Earnings on Investments	\$ 20	\$ 20	\$ 10	\$ (10)
Other - Primarily Meal Sales	248,260	235,605	243,680	8,075
State Sources	18,900	18,500	19,840	1,340
Federal Sources	185,000	209,000	210,092	1,092
Total Revenues	<u>452,180</u>	<u>463,125</u>	<u>473,622</u>	<u>10,497</u>
EXPENDITURES				
Current				
Food Service	467,224	464,622	454,032	(10,590)
Capital Outlay	1,000	1,000	135	(865)
Total Expenditures	<u>468,224</u>	<u>465,622</u>	<u>454,167</u>	<u>(11,455)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (16,044)</u>	<u>\$ (2,497)</u>	19,455	<u>\$ 21,952</u>
FUND BALANCE				
Beginning of Year			<u>49,279</u>	
End of Year			<u>\$ 68,734</u>	

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 82,554	\$ 82,554	\$ 43,506	\$ (39,048)
Earnings on Investments	500	50	43	(7)
Other - Primarily Tuition and Fees	119,550	119,450	122,457	3,007
State Sources	<u>33,330</u>	<u>30,499</u>	<u>61,084</u>	<u>30,585</u>
Total Revenues	235,934	232,553	227,090	(5,463)
EXPENDITURES				
Current				
Community Service	230,556	227,974	201,336	(26,638)
Capital Outlay	<u>900</u>	<u>900</u>	<u>420</u>	<u>(480)</u>
Total Expenditures	<u>231,456</u>	<u>228,874</u>	<u>201,756</u>	<u>(27,118)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 4,478</u>	<u>\$ 3,679</u>	25,334	<u>\$ 21,655</u>
FUND BALANCE				
Beginning of Year			<u>56,424</u>	
End of Year			<u>\$ 81,758</u>	

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	Private- Purpose Trust	Agency Funds
ASSETS		
Cash and Investments	\$ 21,745	\$ 5,466
Total Assets	21,745	\$ 5,466
LIABILITIES		
Accounts Payable	-	\$ 5,466
Total Liabilities	-	\$ 5,466
NET POSITION		
Held in Trust	\$ 21,745	

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

	Private- Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 10,271
Total Additions	10,271
DEDUCTIONS	
Miscellaneous	6,750
Total Deductions	6,750
Change in Net Position	3,521
Net Position - Beginning of Year	18,224
Net Position - End of Year	\$ 21,745

See accompanying Notes to Financial Statements.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2143 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 2143 (the District) is an instrumentality of the State of Minnesota established to function as an education institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements included all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burdens on, the organization. These financial statements include all fund and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

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

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expenses that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type; private-purpose trust and agency fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

D. Measurement Focus and Basis of Accounting

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

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and the accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

The District reports deferred inflows of resources and unearned revenue on its combined balance sheet. Deferred inflows of resources arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report is as follows:

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

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. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues consist of user fees and state and federal reimbursements restricted for the Food Service program.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues consist of local property taxes, state tax credits, state aids, and user fees restricted for the Community Service program.

Fiduciary Funds

Private-Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor.

Agency Fund – The Agency Fund is established to account for the cash held by the District as an agent for others. This fund accounts for funds held for the Gopher Valley Conference.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investments consist of demand deposit accounts, interest bearing accounts, certificates of deposit, and deposits in the Minnesota School District Liquid Asset Fund (MSDLAF). Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Receivables

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivable not expected to be collected within one year are current property taxes receivable.

H. Inventory

Inventory is recorded using the consumption method of accounting and consists of food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, 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 prepayments. Prepaid items are reported using the consumption method and are recorded as an expense or expenditure at the time of consumption.

J. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflows of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy, which is frozen at \$72,111 for the District. Starting in fiscal year 2011, the shift was expanded to include all other General and Community Service Fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2013 Pay 2014 levy, normally revenue for the 2014-15 fiscal year, are also advance recognized at June 30, 2014, as required by state statute to match revenue with the same fiscal year as the related expenditures.

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 a deferred inflow of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2014, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

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 \$1,000 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 District-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated includes land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of building or other improvable property.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period they are incurred.

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

M. Accrued Employee Benefits

Compensated Absences Payable

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave and vacation leave. The District accounts for the employee benefits as follows:

The District compensates administrative and support staff employees for vacation benefits at various rates based on language in their respective agreements. The expenditure for vacation pay is recognized when payment is made.

Substantially all District employees are entitled to sick leave at various rates based on length of service to the District. The expenditure for sick leave is recognized when payment is made. Sick leave has not been accrued in any funds as this benefit does not vest to employees.

At June 30, 2014, compensated absences totaling \$27,079 are recorded in the financial statements.

Other Postemployment Benefits Payable

Under the provisions of various employee and union contracts, the District provides health care benefits if certain age and minimum years of service requirements are met. Accounting policies for other postemployment benefits are described as follows:

1. Other Postemployment Benefits – Teachers

Upon retirement, employees that meet the rule of 90 requirement are eligible to have the District pay \$2,000 per year towards health insurance for 8 years. For those teachers with the equivalent of 20 years of full time service that retire by the end of the 2014-2015 school year, the District will pay \$5,000 per year towards health insurance for 8 years (\$2,000 for 6 years with 20 years of service, but not full time). In addition, teachers with 403B Match Program caps greater than \$10,000 (based on years of service) will receive the amount of their cap, minus accumulated District matching contributions, paid to a health reimbursement account.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Other Postemployment Benefits Payable (Continued)

2. Other Postemployment Benefits – Principals

One employee, upon reaching at least 10 years of service with the District, and attaining age 56, is eligible to have the District pay \$2,400 per year towards medical coverage until age 65. The District is currently paying \$6,000 towards medical coverage for 8 ½ years for one employee who retired prior to June 30, 2012.

All benefits are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

N. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaid expenditures and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution adopted by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Superintendent and Business Manager the ability to assign fund balances and their intended uses. The District currently reports assigned fund balance for separation and retirement benefits. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of 45-60 days of operations.

O. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The other type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year end) under the modified accrual basis of accounting.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for prepaid Community Service Fund revenues and school lunch balances for students.

Q. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employee; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in southcentral Minnesota in the Southcentral Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health and insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

The District continues to carry commercial insurance for all other risk of loss. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

R. Net Position

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

S. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District's Board.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits will not be returned in full. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

As of June 30, 2014, the District's bank balances were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- 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 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen 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 banks, corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2014, the District had the following investments:

External Investment Pools -

	<u>Amortized Cost</u>
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 1,050,923
Minnesota School District MAX Fund (MSDMAX)	1,988,738
	\$ 3,039,661

The Minnesota School District Liquid Asset Fund Plus and Minnesota School District MAX Fund are external investment pools not registered with the Securities and Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a-7. The fair value of the position in the pools is the same as the value of the pool shares.

Credit Risk – The MSDLAF+ and MSDMAX pools are rated AAAM by Standard & Poor's.

Total cash and investments are held as follows:

Deposits	\$ 315,737
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	1,050,923
Minnesota School District Max Fund (MSDMAX)	1,988,738
	\$ 3,355,398

Amounts are presented on the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 3,328,187
Cash and Investments - Statement of Fiduciary Net Position	27,211
Total Cash and Investments	\$ 3,355,398

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 31,400	\$ -	\$ -	\$ 31,400
Total Capital Assets, not being depreciated	31,400	-	-	31,400
Capital Assets, Being Depreciated				
Land Improvements	288,241	-	-	288,241
Buildings and Improvements	5,104,248	-	-	5,104,248
Equipment	2,177,272	143,202	(94,789)	2,225,685
Total Capital Assets, Being Depreciated	7,569,761	143,202	(94,789)	7,618,174
Accumulated Depreciation for				
Land Improvements	(269,327)	(1,662)	-	(270,989)
Buildings and Improvements	(4,243,635)	(72,712)	-	(4,316,347)
Equipment	(1,604,530)	(145,246)	88,699	(1,661,077)
Total Accumulated Depreciation	(6,117,492)	(219,620)	88,699	(6,248,413)
Total Capital Assets, Being Depreciated, Net	1,452,269	(76,418)	(6,090)	1,369,761
Governmental Activities Capital Assets, Net	<u>\$ 1,483,669</u>	<u>\$ (76,418)</u>	<u>\$ (6,090)</u>	<u>\$ 1,401,161</u>

Depreciation expense was charged to functions of the District as follows:

Administration	\$ 2,153
District Support Services	1,758
Regular Instruction	41,068
Vocational Education Instruction	2,653
Special Education Instruction	585
Instructional Support Services	10,833
Pupil Support Services	68,695
Sites and Buildings	89,692
Food Service	2,040
Community Service	143
Total Depreciation Expense, Governmental Activities	<u>\$ 219,620</u>

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Issue	Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
					Due Within One Year	Total
Other General Long-Term Debt:						
Capital Lease	3/20/2011	10.712%	3/20/2011	3/20/2016	\$ 10,678	\$ 19,467
Total Lease Purchase Obligations					10,678	19,467
Other Postemployment Benefits Payable					-	30,017
Compensated Absences Payable					27,079	27,079
					<u>\$ 37,757</u>	<u>\$ 76,563</u>

B. Description of Long-Term Liabilities

Obligation under Capital Leases

In fiscal year 2011, the District had entered into a lease agreement in the amount of \$47,259 for copiers. The capital lease is payable in monthly installments including an interest rate of 10.71% per annum through March 2016. The capital assets relating to the leases have a cost of \$40,804 and \$28,563 of accumulated depreciation.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2014.

<u>Year Ending June 30,</u>	
2015	\$ 12,249
2016	9,186
Total Minimum Lease Payments	21,435
Less Amounts Representing Interest	1,968
Present Value of Net Minimum Lease Payments	<u>\$ 19,467</u>

Compensated Absences

The amount of the estimated obligation at June 30, 2014, is \$27,079. The District's General Fund finances compensated absences on a pay-as-you-go basis.

C. Changes in Long-Term Liabilities

	June 30, 2013	Net Additions	Retirements	June 30, 2014
Capital Leases Payable	\$ 29,065	\$ -	\$ 9,598	\$ 19,467
Other Postemployment Benefits Payable	46,795	174,860	191,638	30,017
Compensated Absences Payable	27,382	69,502	69,805	27,079
	<u>\$ 103,242</u>	<u>\$ 244,362</u>	<u>\$ 271,041</u>	<u>\$ 76,563</u>

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 RESTRICTED FUND BALANCES

Fund Equity

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds.

A. Restricted for Staff Development

This fund balance restriction represents accumulated general education aid resources available to provide staff development programming.

B. Restricted for Deferred Maintenance

Restricted for deferred maintenance represents available resources to be used only to provide for those activities having a useful life of five years or more. These include painting, carpet replacement, tuck pointing, replacement/repair of plumbing, electrical systems, HVAC, and roofing. The cumulative excess/deficit of such revenues over expenditures is reported as a restriction of fund balance in the General Fund.

C. Restricted for Levy Reduction

Represents resources in the General Fund that are transferred from the Debt Service Fund. This restricted fund balance becomes an available resource in the fiscal year in which the related tax levy adjustment is recognized as revenue.

D. Restricted for Learning and Development

This fund balance restriction represents accumulated resources available to provide for learning and development programming in accordance with funding made available for that purpose.

E. Restricted for Gifted and Talented

This restricted fund balance represents accumulated resources made available through a portion of the District's general education aid for gifted and talented programs.

F. Restricted for Basic Skills Programs

This fund balance restriction represents accumulated resources available to provide for basic skills programming in accordance with funding made available for that purpose.

G. Restricted for Health and Safety

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota Statute, a deficit in this restricted fund balance generates specific future levy authority.

H. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment, books, and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 RESTRICTED FUND BALANCES (CONTINUED)

I. Restricted for Disabled Accessibility

Restricted for disabled accessibility represents available resources to be used only to provide the removal of architectural barriers and for fire safety modifications.

J. Restricted for Safe School Crime

Restricted for safe school crime represents available resources to be expended for crime prevention, drug abuse, student and staff safety and violence prevention measures.

K. Restricted for Community Education Programs

This restricted fund balance represents accumulated resources available to provide general community education programming.

L. Restricted for Early Childhood and Family Education Programs

This restricted fund balance represents accumulated resources available to provide services for early childhood and family education programming.

M. Restricted for School Readiness

This restricted fund balance represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

N. Restricted for Other Purposes

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

NOTE 6 ASSIGNED FUND BALANCES

At June 30, 2014, the District has assigned fund balance for separation and retirement benefits.

NOTE 7 PENSION PLANS

Substantially all employees of the District are required by State Law to belong to a pension plan administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

A. Teachers Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA 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. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of credited service. 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.

TRA publicly issued a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive, Suite 400, St. Paul, MN 55103-4000 or by calling (651) 296-6449 or 1-800-657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 7.0% and 10.5%, respectively, of their annual covered salary. The TRA employer contribution rates are 7.0% for Coordinated members and 11.0% for Basic members.

The District's contributions for the years ending June 30, 2014, 2013, and 2012 were \$298,524, \$277,549, and \$249,104, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

1. Plan Description (Continued)

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions for the years ended June 30, 2014, 2013, and 2012 were \$101,358, \$102,750, and \$99,588, respectively, equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a portion of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2014, 2013, and 2012 are \$64,236, \$69,401, and \$67,279, respectively. The related employee contributions were \$111,166, \$130,767, and \$127,340, for the years ended June 30, 2014, 2013, and 2012, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

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. The financial assistance received is subject to audits by the grantor agency.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is administered by Select Account, which is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employees of the District are eligible to participate in the flexible benefit plan for the following: dependent care, dental, vision and various health care benefits. All employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care, dental, vision and dependent care benefits.

Before the beginning of the plan year, which is from July 1 to June 30, 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 for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums 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, Food Service, and Community Service Funds.

Payments for amounts withheld for health care, dental and vision reimbursements and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

All plan property 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 health care and dependent 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.

All plan property 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 health care and dependent 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 10 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the District's health insurance plan. There are 97 active participants and 31 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing the District's employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and the union representatives. The District made a specific contribution toward the cost of current-year premiums for eligible retired plan members. The District also contributes an implicit rate subsidy for retired plan members. This is due to the actual cost for retirees being higher than the average per-person premium for the entire group. For fiscal year 2014, the District contributed \$191,638 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 175,770
Interest on Net OPEB Obligation	2,106
Adjustment to Annual Required Contribution	(3,016)
Annual OPEB Cost (Expense)	174,860
Contributions Made	(191,638)
Increase in Net OPEB Obligation	(16,778)
Net OPEB Obligation - Beginning of Year	46,795
Net OPEB Obligation - End of Year	\$ 30,017

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for 2013 and 2014 is:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 174,860	109.60%	\$ 30,017
6/30/2013	175,107	91.92%	46,795
6/30/2012	184,586	127.01%	33,263

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the District unfunded actuarial accrued liability (UAAL) was \$1,884,559. The annual payroll for active employees covered by the plan in the actuarial valuation was \$4,431,043 for a ratio of UAAL to covered payroll of 42.5%.

WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 to 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% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.00% reduced by decrements to an ultimate rate of 5.00% after six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2013 was 26 years.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT 2143
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$ -	\$ 1,884,559	\$ 1,884,559	0.00%	\$ 4,431,043	42.50%
7/1/2009	-	2,043,499	2,043,499	0.00%	4,071,748	50.20%

(This page intentionally left blank)

SUPPLEMENTARY INFORMATION

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2014**

	<u>Fund Equities June 30, 2013</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures</u>	<u>Transfers</u>
GOVERNMENTAL FUNDS				
General Fund				
Nonspendable				
Prepaid Items	\$ 36,076	\$ -	\$ -	\$ (8,028)
Restricted for				
Staff Development	-	109,035	92,579	-
Deferred Maintenance	31,072	60,374	91,043	-
Levy Reduction	17,403	-	-	-
Learning and Development	20,414	199,642	187,229	-
Gifted and Talented	1,880	12,339	13,199	-
Basic Skills	15,702	281,323	294,859	-
Health and Safety	(167,130)	116,449	51,194	85,019
Operating Capital	112,618	224,956	305,042	-
Disabled Accessibility	2,276	-	-	-
Safe School Crime	21,047	30,187	26,341	-
Career and Technical Programs	-	21,604	118,137	96,533
Assigned for Separation/Retirement Benefits	76,000	-	-	20,000
Unassigned	2,540,170	8,455,106	8,247,781	(193,524)
Total General Fund	<u>2,707,528</u>	<u>9,511,015</u>	<u>9,427,404</u>	<u>-</u>
Food Service Fund				
Nonspendable				
Inventory	23,750	-	-	(4,086)
Restricted for				
Other Purposes	25,529	473,622	454,167	4,086
Total Food Service Fund	<u>49,279</u>	<u>473,622</u>	<u>454,167</u>	<u>-</u>
Community Service Fund				
Restricted for				
Restricted for Community Education	17,860	113,479	99,800	-
Restricted for E.C.F.E.	25,945	47,149	40,359	-
Restricted for School Readiness	899	51,155	43,993	-
Other Purposes	11,720	15,307	17,604	-
Total Community Service Fund	<u>56,424</u>	<u>227,090</u>	<u>201,756</u>	<u>-</u>
TOTAL GOVERNMENT FUNDS	<u>\$ 2,813,231</u>	<u>\$ 10,211,727</u>	<u>\$ 10,083,327</u>	<u>\$ -</u>

**Fund Equities,
June 30, 2014**

<u>Total</u>	<u>Restricted</u>	<u>Unrestricted, Nonspendable, & Assigned</u>
\$ 28,048	\$ -	\$ 28,048
16,456	16,456	-
403	403	-
17,403	17,403	-
32,827	32,827	-
1,020	1,020	-
2,166	2,166	-
(16,856)	(16,856)	-
32,532	32,532	-
2,276	2,276	-
24,893	24,893	-
-	-	-
96,000	-	96,000
<u>2,553,971</u>	<u>-</u>	<u>2,553,971</u>
2,791,139	113,120	2,678,019
19,664	-	19,664
<u>49,070</u>	<u>49,070</u>	<u>-</u>
68,734	49,070	19,664
31,539	31,539	-
32,735	32,735	-
8,061	8,061	-
<u>9,423</u>	<u>9,423</u>	<u>-</u>
<u>81,758</u>	<u>81,758</u>	<u>-</u>
<u>\$ 2,941,631</u>	<u>\$ 243,948</u>	<u>\$ 2,697,683</u>

(This page intentionally left blank)

SINGLE AUDIT AND OTHER REQUIRED REPORTS

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Pass-Through Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-2143-000	<u>\$ 24,520</u>
Total Non-Cash Assistance			\$ 24,520
Cash Assistance:			
School Breakfast Program	# 10.553	1-2143-000	27,081
National School Lunch Program	# 10.555	1-2143-000	<u>158,491</u>
Total Cash Assistance			<u>185,572</u>
Total US Department of Agriculture			<u>210,092</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Title I Grants to Local Education Agencies	84.010	1-2143-000	130,004
Special Education - Grants to States	& 84.027	1-2143-000	230,955
Special Education - Preschool Grants	& 84.173	1-2143-000	14,233
Special Education - Grants for Infants and Families	84.181	1-2143-000	3,835
Career and Technical Education - Basic Grants to States	84.048	1-2143-000	3,486
Improving Teacher Quality State Grants	84.367	1-2143-000	<u>42,673</u>
Total Cash Assistance, U.S. Department of Education			<u>425,186</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			<u><u>\$ 635,278</u></u>

- Child Nutrition Cluster
& - Special Education Cluster

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 2143. The reporting entity is defined in Note 1 of the District's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the financial statements.

NOTE 3 TOTAL BY CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER

<u>Program</u>	<u>CFDA #</u>	<u>Total Expenditures</u>
National School Lunch Program	10.555	\$ 183,011

**INDEPENDENT AUDITORS' 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**

Board of Education
Independent School District No. 2143
Waterville, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2143, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Independent School District No. 2143's basic financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2143'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 Independent School District No. 2143's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2143's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in the accompanying Schedule of Findings and Questioned Costs listed as item 2014-001 to be a material weakness.

Compliance and Other Matters

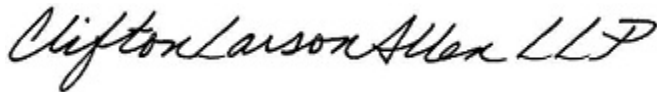
As part of obtaining reasonable assurance about whether Independent School District No. 2143's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

Independent School District No. 2143's Response to Findings

Independent School District No. 2143's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 2143's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Independent School District No. 2143
Waterville, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 2143's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 2143's major federal programs for the year ended June 30, 2014. Independent School District No. 2143's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 2143'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 Independent School District No. 2143'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 Independent School District No. 2143's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 2143 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

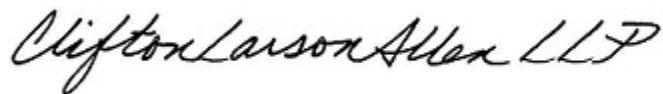
Report on Internal Control Over Compliance

Management of Independent School District No. 2143 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2143'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 Independent School District No. 2143's internal control over compliance.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a material weakness.

Independent School District No. 2143's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 2143's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses. 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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 2143
Waterville, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2143, as of June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated December 4, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers 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. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 2143 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-003. 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 Independent School District No. 2143's noncompliance with the above-referenced provisions.

Independent School District No. 2143's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 2143's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Part I: Summary of Independent Auditors' Results

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Independent School District No. 2143.
2. One deficiency in internal control over financial reporting was disclosed during the audit of the basic financial statements. This finding was considered to be a material weakness.
3. No instances of noncompliance material to the basic financial statements of Independent School District No. 2143 were disclosed during the audit.
4. One deficiency was disclosed during the audit of the major federal award programs, and was considered to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 2143 expresses an unmodified opinion.
6. The audit disclosed findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. The programs tested as major programs included:
 - U.S. Department of Education:
 - Child Nutrition Cluster:
 - School Breakfast Program CFDA #10.553
 - National School Lunch Program CFDA #10.555
 - Special Education Cluster:
 - Special Education - Grants to States CFDA #84.027
 - Special Education - Preschool Grants CFDA #84.173
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 2143 was not determined to be a low-risk auditee.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Part II: Findings Related to Internal Control Over Financial Reporting

Finding: 2014-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: The District should have controls in place to prevent or detect the omission of a material disclosure in the annual financial statements.

Context: The District has informed us that they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the annual financial statements.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's internal controls.

Cause: The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation: We recommend the District continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Continue training of business staff in financial reporting to gain competencies in the area for future preparation of financial statements.

Official Responsible for Ensuring CAP:

Joel Whitehurst, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Part III: Federal Awards Findings and Questioned Costs

Finding: 2014-002 **SPECIAL EDUCATION CLUSTER, CFDA #84.027, #84.173 and #84.181
ALL GRANT YEARS
UNITED STATES DEPARTMENT OF EDUCATION
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME AND EFFORT RECORDS**

Condition: One of nine employees tested had time cards that either showed the incorrect coding or no coding, for the time the employee had worked on special education.

Criteria: OMB Circular A-133 requires recipients of federal funds to have appropriate internal controls to prevent, or detect and correct, any material noncompliance in a timely manner. Federal grant funds are only to be spent in accordance with the purpose of the grant.

Questioned Costs: None

Context: One of nine employees tested did not have the appropriate time and effort documentation for their time coded to state special education.

Effect: The District's controls may not detect or prevent the District from requesting for expenditures that are not allowable under the grant.

Cause: Not Known.

Recommendation: We recommend the District fill out monthly PARs and have them reviewed for appropriate coding.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Joel Whitehurst, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2015

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Part IV: Findings and Questioned Costs– Minnesota Legal Compliance

Finding: 2014-003 CONFLICT OF INTEREST

Condition: A Board of Education member has a spouse in a District employee class, however, did not abstain from voting on the group's master contract.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District and the Board of Education will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Joel Whitehurst, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is November 30, 2014.

Plan to Monitor Completion of CAP:

The Board of Education and administration will be monitoring this corrective action plan.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AUDIT FINDINGS
JUNE 30, 2014**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2013-004	Internal Controls Over Eligibility	Corrected	

(This page intentionally left blank)

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2014**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 9,511,015	\$ 9,510,998	\$ 17	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 9,427,404	\$ 9,427,386	\$ 18	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 28,048	\$ 28,048	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 16,456	\$ 16,456	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 403	\$ 403	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (16,856)	\$ (16,856)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	<i>Unreserved:</i>			
409 Deferred Maintenance	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
411 Severance Pay	\$ -	\$ -	\$ -				
414 Operating Debt	\$ -	\$ -	\$ -	07 DEBT SERVICE			
416 Levy Reduction	\$ 17,403	\$ 17,403	\$ -	Total Revenue	\$ -	\$ -	\$ -
419 Encumbrances	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -	<i>Nonspendable:</i>			
424 Operating Capital	\$ 32,532	\$ 32,532	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Restricted:</i>			
427 Disabled Accessibility	\$ 2,276	\$ 2,276	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
428 Learning & Development	\$ 32,827	\$ 32,827	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
436 State Approved Alt. Program	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
438 Gifted and Talented	\$ 1,020	\$ 1,020	\$ -				
439 Grad Standards	\$ -	\$ -	\$ -	08 TRUST			
441 Basic Skills Programs	\$ 2,166	\$ 2,166	\$ -	Total Revenue	\$ 10,271	\$ 10,272	\$ (1)
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	Total Expenditures	\$ 6,750	\$ 6,750	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
446 First Grade Preparedness	\$ -	\$ -	\$ -	422 Unassigned	\$ 21,745	\$ 21,745	\$ -
449 Safe School Crime	\$ 24,893	\$ 24,893	\$ -				
450 Transition to Pre-K	\$ -	\$ -	\$ -	09 AGENCY			
451 QZAB Payments	\$ -	\$ -	\$ -	<i>Unassigned: Should Always Be -0-</i>			
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Lev	\$ -	\$ -	\$ -				
<i>Committed:</i>				20 INTERNAL SERVICE			
418 Committed for Severance	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
461 Committed	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned	\$ 96,000	\$ 96,000	\$ -	422 Unassigned	\$ -	\$ -	\$ -
<i>Unassigned:</i>							
422 Unassigned	\$ 2,553,971	\$ 2,553,976	\$ (5)	25 OPEB REVOCABLE TRUST			
02 FOOD SERVICE				Total Revenue	\$ -	\$ -	\$ -
Total Revenue	\$ 473,622	\$ 473,622	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Total Expenditures	\$ 454,167	\$ 454,167	\$ -	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned	\$ -	\$ -	\$ -
460 Nonspendable	\$ 19,664	\$ 19,664	\$ -				
<i>Restricted:</i>				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 49,070	\$ 49,070	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE							
Total Revenue	\$ 227,090	\$ 227,089	\$ 1	47 OPEB DEBT SERVICE			
Total Expenditures	\$ 201,756	\$ 201,754	\$ 2	Total Revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable	\$ -	\$ -	\$ -	<i>Restricted:</i>			
<i>Restricted:</i>				464 Other Purposes	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
431 Community Education	\$ 31,539	\$ 31,539	\$ -	463 Unassigned	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 32,735	\$ 32,735	\$ -				
444 School Readiness	\$ 8,061	\$ 8,061	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 9,423	\$ 9,424	\$ (1)				
<i>Unassigned:</i>							
463 Unassigned	\$ -	\$ -	\$ -				

(This page intentionally left blank)

EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2143
Waterville, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Extracurricular Student Activity Accounts of Independent School District No. 2143 as of and for the year ended June 30, 2014, and the related note to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the regulatory basis of accounting described in the Note to the financial statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 2143 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to the financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Extracurricular Student Activity Accounts of Independent School District No. 2143 as of June 30, 2014, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Extracurricular Student Activity Accounts of Independent School District No. 2143 as of June 30, 2014, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2014**

<u>High School Student Activity</u>	Balance July 1, 2013	Receipts and Transfers	Disbursements and Transfers	Balance June 30, 2014
Band	\$ 863	\$ 4,655	\$ 5,314	\$ 204
Baseball	-	982	980	2
Buccaneer Log	4,022	3,679	7,046	655
Cheerleaders	168	822	459	531
Choir	3,746	64,418	64,401	3,763
Class of 2017	-	292	40	252
Class of 2016	291	332	500	123
Class of 2015	852	10,090	6,492	4,450
Class of 2014	3,867	2,054	5,921	-
Clay Target Team	40	-	-	40
Close Up	1,159	1,234	-	2,393
Danceline	152	2,011	1,784	379
Drama	2,472	2,038	1,777	2,733
ESCAPE	-	74	-	74
Europe Club	1	2,393	1,550	844
FCA	162	972	800	334
FFA	7,800	22,712	23,695	6,817
FCCLA	263	1,999	1,806	456
Football	420	85	-	505
Knowledge Bowl	233	2	-	235
PACT	887	2,261	2,412	736
School Store	5,305	7,927	7,500	5,732
Softball	-	219	-	219
Speech	1,516	1,441	2,484	473
STEM Club	13,552	18,519	3,169	28,902
Student Council	2,057	1,285	1,791	1,551
Volleyball	63	829	810	82
	<u>49,891</u>	<u>153,325</u>	<u>140,731</u>	<u>62,485</u>
 <u>Junior High Student Activity</u>				
K-8 Yearbook	3,605	3,263	2,992	3,876
Student Activity	1,284	1	76	1,209
Student Council	1,045	1,805	1,890	960
	<u>5,934</u>	<u>5,069</u>	<u>4,958</u>	<u>6,045</u>
	<u>\$ 55,825</u>	<u>\$ 158,394</u>	<u>\$ 145,689</u>	<u>\$ 68,530</u>

See Accompanying Notes to Extracurricular Student Activity Accounts Financial Statement.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2014**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Extracurricular Student Activity Accounts are maintained, and the accompanying financial statements have been prepared, as permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR ACTIVITY FUND ACCOUNTING**

Board of Education
Independent School District No. 2143
Waterville, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Extracurricular Student Activity Accounts of Independent School District No. 2143 as of and for the year ended June 30, 2014, and the related note to the financial statement, which collectively comprises the basic financial statement, and have issued our report thereon dated December 4, 2014. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statement is prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings and Responses as item 2014-004. 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 written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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



CliftonLarsonAllen LLP

Austin, Minnesota
December 4, 2014

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2143
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

Finding: 2014-004 ACTIVITY PURPOSE FORM

We noted that none of five Activity Purpose Forms selected were completed and returned to the business office for filing. According to Manual Activity Fund Accounting, all student activities must have a completed Activity Purpose Form on file.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will ensure all of the Activity Purpose Forms are completed and returned to the business offices at the beginning of each school year.

Official Responsible for Ensuring CAP:

Joel Whitehurst, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.