

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

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**



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

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
BOARD OF EDUCATION AND ADMINISTRATION  
YEAR ENDED JUNE 30, 2013**

**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

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## **FINANCIAL SECTION**

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## 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***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, 2013, 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 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 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 13, 2013, 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.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
December 13, 2013

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

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, 2013. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### **FINANCIAL HIGHLIGHTS**

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

- Overall General Fund revenues and other financing sources were \$9,011,404 compared to \$8,925,257 of expenditures.
- Revenues in the Food Service Fund were less than budgeted resulting in a decrease 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, 2013**

**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, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's *combined* net position were \$4,263,991 on June 30, 2013.

**Table A-1  
The District's Net Position**

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2013</b>	<b>2012</b>	
Current and Other Assets	\$ 4,581,625	\$ 4,467,139	2.56%
Capital and Non-Current Assets	1,483,669	1,679,223	-11.65%
<b>Total Assets</b>	<b>6,065,294</b>	<b>6,146,362</b>	<b>-1.32%</b>
Current Liabilities	1,735,041	1,749,549	-0.83%
Long Term Liabilities	66,262	61,935	6.99%
<b>Total Liabilities</b>	<b>1,801,303</b>	<b>1,811,484</b>	<b>-0.56%</b>
Net Position			
Net Investment in Capital Assets	1,454,604	1,597,923	-8.97%
Restricted	221,263	179,422	23.32%
Unrestricted	2,588,124	2,557,533	1.20%
<b>Total Net Position</b>	<b>\$ 4,263,991</b>	<b>\$ 4,334,878</b>	<b>-1.64%</b>

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Changes in Net Position**

The District's total revenues were \$9,685,449 for the year ended June 30, 2013. Property taxes and state formula aid accounted for 71.1% of total revenue for the year. (See Figure A-1.) Another 28.9% came from operating and capital grants, program revenues and investment earnings.

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

	<b>Governmental Activities for the Fiscal Year Ended June 30.</b>		<b>Total % Change</b>
	<b>2013</b>	<b>2012</b>	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 660,267	\$ 680,543	-2.98%
Operating Grants and Contributions	2,037,954	1,937,299	5.20%
Capital Grants and Contributions	38,058	31,590	20.47%
<u>General Revenues</u>			
Property Taxes	1,861,657	1,832,253	1.60%
Unrestricted State Aid	5,026,871	5,469,864	-8.10%
Investment Earnings	1,080	1,032	4.65%
Other	59,562	70,897	-15.99%
Total Revenues	9,685,449	10,023,478	
<b>Expenses</b>			
Administration	575,245	518,792	10.88%
District Support Services	359,192	409,041	-12.19%
Regular Instruction	4,349,060	4,254,223	2.23%
Vocational Education Instruction	126,881	119,139	6.50%
Special Education Instruction	1,657,836	1,661,715	-0.23%
Instructional Support Services	264,762	244,810	8.15%
Pupil Support Services	769,072	716,382	7.36%
Sites and Buildings	926,112	938,665	-1.34%
Fiscal and Other Fixed Cost Programs	38,681	30,385	27.30%
Food Service	464,277	445,514	4.21%
Community Service	217,290	214,524	1.29%
Interest and Fiscal Charges on Long-Term Liabilities	7,928	11,162	100.00%
Total Expenses	9,756,336	9,564,352	2.01%
<b>Increase in Net Position</b>			
	(70,887)	459,126	
Beginning Net Position	4,334,878	3,875,752	
Ending Net Position	\$ 4,263,991	\$ 4,334,878	

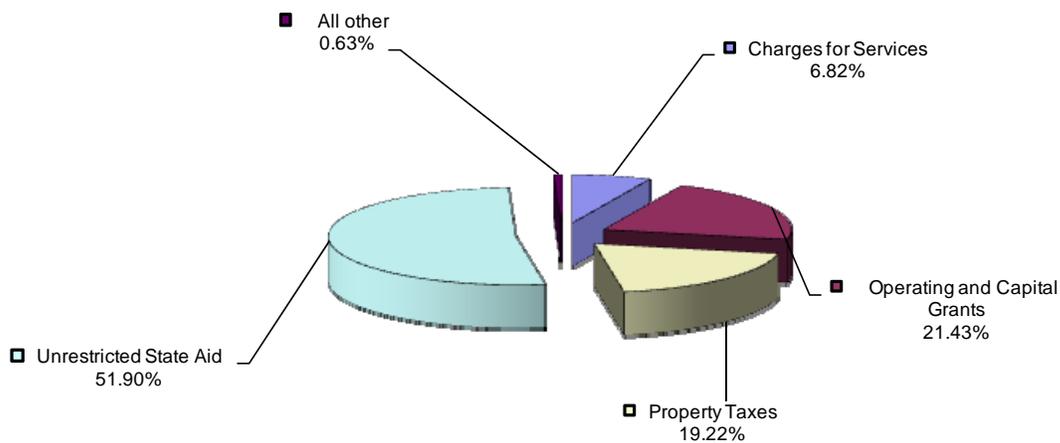
The total cost of all programs and services was \$9,756,336. Total expenses surpassed revenues, decreasing net position \$70,887 from last year.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

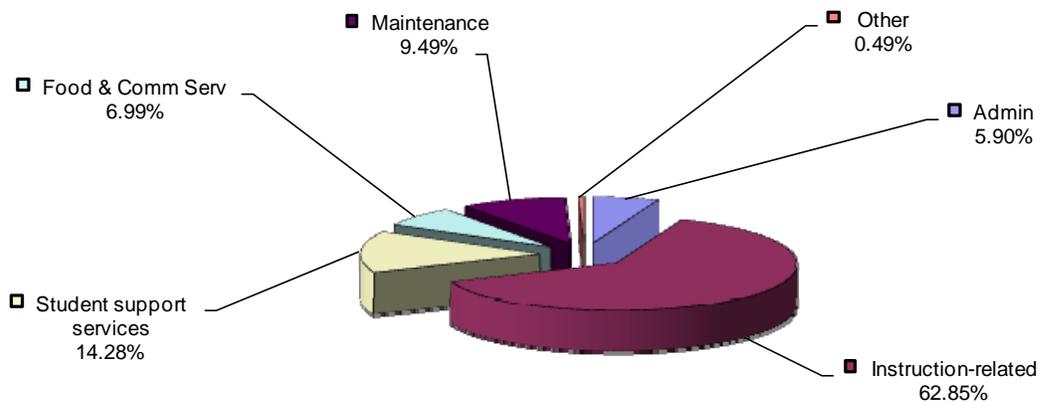
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

- 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 \$1,861,657 in property taxes, \$5,026,871 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 \$660,267.
- The federal and state governments subsidized certain programs with grants and contributions of \$2,076,012.

**Figure A-1 Sources of District's Revenues for Fiscal 2013**



**Figure A-2 District Expenses for Fiscal 2013**



**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**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**

	<b>Total Cost of Services</b>		<b>Percentage Change</b>	<b>Net Cost of Services</b>		<b>Percentage Change</b>
	<b>2013</b>	<b>2012</b>		<b>2013</b>	<b>2012</b>	
Administration	\$ 575,245	\$ 518,792	10.88%	\$ 575,245	\$ 509,539	12.90%
District Support Services	359,192	409,041	-12.19%	348,909	405,640	-13.99%
Regular Instruction	4,349,060	4,254,223	2.23%	3,428,456	3,368,883	1.77%
Vocational Education Instruction	126,881	119,139	6.50%	126,881	119,074	6.56%
Special Education Instruction	1,657,836	1,661,715	-0.23%	548,503	592,858	-7.48%
Instructional Support Services	264,762	244,810	8.15%	264,762	233,791	13.25%
Pupil Support Services	769,072	716,382	7.36%	717,845	695,528	3.21%
Sites and Buildings	926,112	938,665	-1.34%	831,634	853,804	-2.60%
Fiscal and Other Fixed Cost Programs	38,681	30,385	27.30%	38,681	30,385	27.30%
Food Service	464,277	445,514	4.21%	46,761	(11,474)	-507.54%
Community Service	217,290	214,524	1.29%	84,452	105,730	-20.12%
Interest and Fiscal Charges on Long-Term Liabilities	7,928	11,162	-28.97%	7,928	11,162	100.00%
<b>Total</b>	<b>\$ 9,756,336</b>	<b>\$ 9,564,352</b>	<b>2.01%</b>	<b>\$ 7,020,057</b>	<b>\$ 6,914,920</b>	<b>1.52%</b>

**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 \$2,813,231, as compared with \$2,735,474 last year.

Revenues and other financing sources for the District's governmental funds were \$9,680,751 while total expenditures were \$9,602,994.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**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)**

<b>Grade</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Kdgt. & ECSE	73	79	81	92	84
1-3	182	172	177	176	188
4-6	226	212	206	184	180
7-12	424	424	432	418	404
<b>Total K-12 ADM</b>	<b>905</b>	<b>887</b>	<b>896</b>	<b>870</b>	<b>856</b>
<b>ADM Change</b>	<b>N/A</b>	<b>(18)</b>	<b>9</b>	<b>(26)</b>	<b>(14)</b>
<b>Percent Change</b>	<b>N/A</b>	<b>-2.0%</b>	<b>1.0%</b>	<b>-2.9%</b>	<b>-1.6%</b>

Over the last five years the District has experienced a decline in average daily membership by 49 students or about 5%. It is anticipated the trend 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, 2013**

**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, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 1,768,135	\$ 1,775,359	\$ (7,224)	-0.4%
Earnings on Investments	991	934	57	6.1%
Other	358,858	408,187	(49,329)	-12.1%
State Sources	6,417,997	6,560,243	(142,246)	-2.2%
Federal Sources	444,322	597,080	(152,758)	-25.6%
Total General Fund Revenue	<u>\$ 8,990,303</u>	<u>\$ 9,341,803</u>	<u>\$ (351,500)</u>	-3.8%

Total General Fund Revenue decreased by \$351,500 from the previous year mainly due to decreases from State and Federal sources. The decrease from prior year is due to decreases in state sources revenue resulting from a decrease in student enrollment. Federal sources revenue decreased due to the completion of the Education Jobs Fund grant in the 2011-2012 school year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including 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, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 5,586,646	\$ 5,397,836	\$ 188,810	3.5%
Employee Benefits	1,869,847	1,811,853	57,994	3.2%
Purchased Services	761,064	891,755	(130,691)	-14.7%
Supplies and Materials	458,575	400,976	57,599	14.4%
Capital Expenditures	168,277	429,241	(260,964)	-60.8%
Other Expenditures	80,848	82,023	(1,175)	-1.4%
Total Expenditures	<u>\$ 8,925,257</u>	<u>\$ 9,013,684</u>	<u>\$ (88,427)</u>	-1.0%

Total General Fund Expenditures decreased \$88,427 or 1.0% from the previous year.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**General Fund Budgetary Highlights**

Actual revenues in the General Fund exceeded the final budget by \$159,506, with a net amount of \$220,300 coming from Property Taxes and State sources. The District received more special education aid revenue than budgeted, which was partially offset by a decrease in general education aid revenue attributed to lower enrollment compared to the 2011-2012 school year.

**OTHER MAJOR FUNDS**

Expenditures exceeded revenues in the Food Service Fund by \$32,511.

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 a decrease in its fund balance of \$32,511. This is due to a decrease in participation in the school meal program resulting from a decrease in student enrollment and an increase in salaries and benefits expenditures.

Revenues exceeded expenditures in the Community Education Fund by \$24,121.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of fiscal 2013, 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 \$227,588.

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

	<u>2013</u>	<u>2012</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	2,177,272	2,145,238	1.5%
Less: Accumulated Depreciation	<u>(6,117,492)</u>	<u>(5,889,904)</u>	3.9%
<b>Total</b>	<u><u>\$ 1,483,669</u></u>	<u><u>\$ 1,679,223</u></u>	-11.6%

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**Long-Term Liabilities**

At year-end, the District had \$81,300 in capital lease obligations outstanding.

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

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Obligations Under Capital Leases	\$ 29,065	\$ 81,300	-64.25%
Other Postemployment Benefits Payable	46,795	33,263	40.68%
Compensated Absences Payable	<u>27,382</u>	<u>30,897</u>	-11.38%
<b>Total</b>	<u>\$ 103,242</u>	<u>\$ 145,460</u>	-29.02%
Long-Term Liabilities:			
Due Within One Year	\$ 36,980	\$ 83,525	
Due in More Than One Year	<u>66,262</u>	<u>61,935</u>	
	<u>\$ 103,242</u>	<u>\$ 145,460</u>	

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The State of Minnesota increased the fiscal year 2013 aid payment to school districts from 64.3% at June 30, 2012 to 82.5% at December 15, 2012 and to 86.4% at March 15, 2013 with the balance of aid to be paid in fiscal year 2014. The State of Minnesota still owes the District over \$1.0 Million for revenue neutral property tax shift that was recorded in fiscal year 2011 through 2013.

The State of Minnesota paid \$5,174 per adjusted marginal pupil unit to fund general education for fiscal year 2013. Fiscal year 2014, this amount will be increased to \$5,302. Although this is an increase, the District's adjusted marginal pupil unit has been declining each year. 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**

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
STATEMENT OF NET POSITION  
JUNE 30, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,002,614	\$ 686,589
Receivables		
Property Taxes	1,006,453	947,334
Other Governments	1,499,910	2,754,475
Other	12,822	13,781
Prepaid Items	36,076	42,869
Inventory	23,750	22,091
Capital Assets		
Land	31,400	31,400
Other Capital Assets, Net of Depreciation	1,452,269	1,647,823
Total Assets	<u>6,065,294</u>	<u>6,146,362</u>
<b>LIABILITIES</b>		
Salaries and Payroll Deductions Payable	673,082	623,498
Accounts Payable	36,094	111,227
Accrued Interest	86	80
Due to Other Governmental Units	12,866	8,441
Property Tax Shift Adjustment	-	20
Deferred Revenue		
Property Taxes	967,911	886,774
Local Sources	8,022	35,984
Long-Term Liabilities		
Portion Due Within One Year	36,980	83,525
Portion Due in More Than One Year	66,262	61,935
Total Liabilities	<u>1,801,303</u>	<u>1,811,484</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	1,454,604	1,597,923
Restricted for:		
Operating Capital Purposes	112,618	62,387
Food Service	49,279	81,790
Community Service	59,366	35,245
Unrestricted	2,588,124	2,557,533
Total Net Position	<u>\$ 4,263,991</u>	<u>\$ 4,334,878</u>

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

<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>
<b>Governmental Activities</b>				
Administration	\$ 575,245	\$ -	\$ -	\$ -
District Support Services	359,192	-	-	10,283
Regular Instruction	4,349,060	187,355	726,172	7,077
Vocational Education Instruction	126,881	-	-	-
Special Education Instruction	1,657,836	53,036	1,056,297	-
Instructional Support Services	264,762	-	-	-
Pupil Support Services	769,072	24,654	15,961	10,612
Sites and Buildings	926,112	84,392	-	10,086
Fiscal and Other Fixed Cost Programs	38,681	-	-	-
Food Service	464,277	210,564	206,952	-
Community Service	217,290	100,266	32,572	-
Interest and Fiscal Charges on Long-Term Liabilities	7,928	-	-	-
Total School District	<u>\$ 9,756,336</u>	<u>\$ 660,267</u>	<u>\$ 2,037,954</u>	<u>\$ 38,058</u>

**General Revenues**

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

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

<b>Total 2013</b>	<b>Total 2012</b>
\$ (575,245)	\$ (509,539)
(348,909)	(405,640)
(3,428,456)	(3,368,883)
(126,881)	(119,074)
(548,503)	(592,858)
(264,762)	(233,791)
(717,845)	(695,528)
(831,634)	(853,804)
(38,681)	(30,385)
(46,761)	11,474
(84,452)	(105,730)
(7,928)	(11,162)
(7,020,057)	(6,914,920)
1,774,586	1,769,409
87,071	62,844
5,026,871	5,469,864
1,080	1,032
-	7,605
59,562	63,292
6,949,170	7,374,046
(70,887)	459,126
4,334,878	3,875,752
\$ 4,263,991	\$ 4,334,878

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	Major Funds		
	General	Food Service	Community Service
<b>ASSETS</b>			
Cash and Investments	\$ 1,942,059	\$ -	\$ 60,555
Receivables			
Current Property Taxes	893,569	-	42,465
Delinquent Property Taxes	69,484	-	935
Due from Other Minnesota School Districts	100,540	-	1,674
Due from Minnesota Department of Education	980,788	4,833	1,647
Due from Federal through Minnesota Department of Education	369,180	41,248	-
Other Receivables	8,853	-	3,969
Due from Other Funds	8,513	-	-
Prepaid Items	36,076	-	-
Inventory	-	23,750	-
Total Assets	<u>\$ 4,409,062</u>	<u>\$ 69,831</u>	<u>\$ 111,245</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 659,143	\$ 4,886	\$ 9,053
Accounts and Contracts Payable	34,268	6	1,820
Due to Other Governmental Units	12,866	-	-
Due to Other Funds	-	8,513	-
Property Tax Shift Adjustment	-	-	-
Deferred Revenue:			
Property Taxes Levied for Subsequent Year	925,513	-	42,398
Delinquent Property Taxes	69,484	-	935
Local Sources	260	7,147	615
Total Liabilities	<u>1,701,534</u>	<u>20,552</u>	<u>54,821</u>
Fund Balance			
Nonspendable			
Prepaid Items	36,076	-	-
Inventory	-	23,750	-
Restricted for			
Deferred Maintenance	31,072	-	-
Levy Reduction	17,403	-	-
Learning and Development	20,414	-	-
Gifted and Talented	1,880	-	-
Basic Skills Programs	15,702	-	-
Health and Safety	(167,130)	-	-
Operating Capital	112,618	-	-
Disabled Accessibility	2,276	-	-
Safe School Crime	21,047	-	-
Community Education Programs	-	-	17,860
Early Childhood and Family Educations Programs	-	-	25,945
School Readiness	-	-	899
Other Purposes	-	25,529	11,720
Assigned for			
Separation/Retirement Benefits	76,000	-	-
Unassigned	2,540,170	-	-
Total Fund Balance	<u>2,707,528</u>	<u>49,279</u>	<u>56,424</u>
Total Liabilities and Fund Balance	<u>\$ 4,409,062</u>	<u>\$ 69,831</u>	<u>\$ 111,245</u>

See accompanying Notes to Financial Statements.

**Total Governmental  
Funds**

<u>2013</u>	<u>2012</u>
\$ 2,002,614	\$ 686,589
936,034	881,613
70,419	65,721
102,214	123,165
987,268	2,258,934
410,428	372,376
12,822	13,781
8,513	-
36,076	42,869
23,750	22,091
<u>\$ 4,590,138</u>	<u>\$ 4,467,139</u>
\$ 673,082	\$ 623,498
36,094	111,227
12,866	8,441
8,513	-
-	20
967,911	886,774
70,419	65,721
8,022	35,984
<u>1,776,907</u>	<u>1,731,665</u>
36,076	42,219
23,750	22,741
31,072	10,658
17,403	17,403
20,414	16,863
1,880	2,164
15,702	8,039
(167,130)	(123,486)
112,618	62,387
2,276	2,276
21,047	16,978
17,860	10,985
25,945	9,270
899	4,051
37,249	67,046
76,000	87,000
<u>2,540,170</u>	<u>2,478,880</u>
<u>2,813,231</u>	<u>2,735,474</u>
<u>\$ 4,590,138</u>	<u>\$ 4,467,139</u>

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**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, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

	<b>2013</b>	<b>2012</b>
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 2,813,231</b>	<b>\$ 2,735,474</b>
<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	18,914	20,576
Buildings and Improvements, Net of Accumulated Depreciation	860,613	939,236
Equipment, Net of Accumulated Depreciation	572,742	688,011
<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 revenue in the funds.</p>		
	70,419	65,721
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(86)	(80)
<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	(29,065)	(81,300)
Compensated Absences Payable	(27,382)	(30,897)
Other Postemployment Benefits Payable	(46,795)	(33,263)
<b>Total Net Position of Governmental Activities</b>	<b>\$ 4,263,991</b>	<b>\$ 4,334,878</b>

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, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<b>Major Funds</b>		
	<b>General</b>	<b>Food Service</b>	<b>Community Service</b>
<b>REVENUES</b>			
Local Sources			
Property Taxes	\$ 1,768,135	\$ -	\$ 88,824
Earnings on Investments	991	35	54
Other	358,858	219,951	123,844
State Sources	6,417,997	19,191	29,687
Federal Sources	444,322	187,761	-
Total Revenues	<u>8,990,303</u>	<u>426,938</u>	<u>242,409</u>
<b>EXPENDITURES</b>			
Current			
Administration	572,354	-	-
District Support Services	343,103	-	-
Regular Instruction	4,266,765	-	-
Vocational Education Instruction	125,528	-	-
Special Education Instruction	1,658,012	-	-
Instructional Support Services	253,314	-	-
Pupil Support Services	692,233	-	-
Sites and Buildings	749,191	-	-
Fiscal and Other Fixed Cost Programs	38,681	-	-
Food Service	-	459,449	-
Community Service	-	-	218,288
Capital Outlay	168,277	-	-
Debt Service			
Principal	52,235	-	-
Interest and Fiscal Charges	5,564	-	-
Total Expenditures	<u>8,925,257</u>	<u>459,449</u>	<u>218,288</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	65,046	(32,511)	24,121
<b>OTHER FINANCING SOURCES</b>			
Sale of Equipment Proceeds	-	-	-
Insurance Recovery Proceeds	21,101	-	-
Judgments for School Districts	-	-	-
Total Other Financing Sources	<u>21,101</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	86,147	(32,511)	24,121
Fund Balances - Beginning	2,621,381	81,790	32,303
Fund Balances - Ending	<u>\$ 2,707,528</u>	<u>\$ 49,279</u>	<u>\$ 56,424</u>

See accompanying Notes to Financial Statements.

**Total Governmental  
Funds**

<u>2013</u>	<u>2012</u>
\$ 1,856,959	\$ 1,838,457
1,080	1,032
702,653	744,742
6,466,875	6,629,703
632,083	800,039
9,659,650	10,013,973
572,354	525,353
343,103	348,249
4,266,765	4,159,885
125,528	119,614
1,658,012	1,658,555
253,314	215,990
692,233	664,851
749,191	800,714
38,681	33,432
459,449	439,263
218,288	213,045
168,277	435,742
52,235	48,895
5,564	8,905
9,602,994	9,672,493
56,656	341,480
-	7,605
21,101	5,728
-	2,376
21,101	15,709
77,757	357,189
2,735,474	2,378,285
\$ 2,813,231	\$ 2,735,474

**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, 2013  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<b>2013</b>	<b>2012</b>
<b>Net Change in Fund Balance-Total Governmental Funds</b>	<b>\$ 77,757</b>	<b>\$ 357,189</b>
 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	32,034	233,074
Depreciation Expense	(227,588)	(224,187)
 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	(6)	101
Repayment of Capital Lease Principal	52,235	48,895
 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 deferred in the funds.		
	4,698	(6,204)
 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).		
	(10,017)	50,258
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (70,887)</b>	<b>\$ 459,126</b>

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources				
Property Taxes	\$ 1,698,548	\$ 1,698,542	\$ 1,768,135	\$ 69,593
Earnings on Investments	700	700	991	291
Other	400,231	396,985	358,858	(38,127)
State Sources	6,271,821	6,267,290	6,417,997	150,707
Federal Sources	488,707	467,280	444,322	(22,958)
Total Revenues	<u>8,860,007</u>	<u>8,830,797</u>	<u>8,990,303</u>	<u>159,506</u>
<b>EXPENDITURES</b>				
Current:				
Administration	525,493	540,347	572,354	32,007
District Support Services	366,589	370,395	343,103	(27,292)
Regular Instruction	4,198,129	4,272,720	4,266,765	(5,955)
Vocational Education Instruction	128,248	125,673	125,528	(145)
Special Education Instruction	1,755,567	1,694,732	1,658,012	(36,720)
Instructional Support Services	263,111	257,558	253,314	(4,244)
Pupil Support Services	722,007	725,083	692,233	(32,850)
Sites and Buildings	765,416	776,876	749,191	(27,685)
Fiscal and Other Fixed Cost Programs	39,155	39,155	38,681	(474)
Capital Outlay	294,780	300,036	168,277	(131,759)
Debt Service				
Principal	12,250	12,250	52,235	39,985
Interest and Fiscal Charges	-	-	5,564	5,564
Total Expenditures	<u>9,070,745</u>	<u>9,114,825</u>	<u>8,925,257</u>	<u>(189,568)</u>
Excess of Revenues Over Expenditures	(210,738)	(284,028)	65,046	349,074
<b>OTHER FINANCING SOURCES</b>				
Insurance Recovery Proceeds	-	-	21,101	21,101
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>21,101</u>	<u>21,101</u>
Net Change in Fund Balances	<u>\$ (210,738)</u>	<u>\$ (284,028)</u>	86,147	<u>\$ 370,175</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>2,621,381</u>	
End of Year			<u>\$ 2,707,528</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources				
Earnings on Investments	\$ 20	\$ 20	\$ 35	\$ 15
Other - Primarily Meal Sales	238,710	238,710	219,951	(18,759)
State Sources	20,400	20,400	19,191	(1,209)
Federal Sources	191,700	191,700	187,761	(3,939)
Total Revenues	<u>450,830</u>	<u>450,830</u>	<u>426,938</u>	<u>(23,892)</u>
<b>EXPENDITURES</b>				
Current				
Food Service	466,841	484,719	459,449	(25,270)
Capital Outlay	1,000	1,000	-	(1,000)
Total Expenditures	<u>467,841</u>	<u>485,719</u>	<u>459,449</u>	<u>(26,270)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (17,011)</u>	<u>\$ (34,889)</u>	(32,511)	<u>\$ 2,378</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>81,790</u>	
End of Year			<u>\$ 49,279</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources				
Property Taxes	\$ 86,124	\$ 86,124	\$ 88,824	\$ 2,700
Earnings on Investments	500	500	54	(446)
Other - Primarily Tuition and Fees	94,538	112,860	123,844	10,984
State Sources	<u>32,492</u>	<u>34,283</u>	<u>29,687</u>	<u>(4,596)</u>
Total Revenues	213,654	233,767	242,409	8,642
<b>EXPENDITURES</b>				
Current				
Community Service	226,262	232,810	218,288	(14,522)
Capital Outlay	<u>900</u>	<u>900</u>	<u>-</u>	<u>(900)</u>
Total Expenditures	<u>227,162</u>	<u>233,710</u>	<u>218,288</u>	<u>(15,422)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (13,508)</u>	<u>\$ 57</u>	24,121	<u>\$ 24,064</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>32,303</u>	
End of Year			<u>\$ 56,424</u>	

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2013**

	<b>Private- Purpose Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and Investments	\$ 18,266	\$ 4,138
Total Assets	18,266	4,138
<b>LIABILITIES</b>		
Accounts Payable	42	\$ 4,138
Total Liabilities	42	4,138
<b>NET POSITION</b>		
Held in Trust	\$ 18,224	

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2013**

	<b>Private- Purpose Trust</b>
<b>ADDITIONS</b>	
Gifts and Donations	\$ 10,522
Total Additions	10,522
<b>DEDUCTIONS</b>	
Miscellaneous	9,042
Total Deductions	9,042
Change in Net Position	1,480
Net Position - Beginning of Year	16,744
Net Position - End of Year	\$ 18,224

See accompanying Notes to Financial Statements.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2143**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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, 2013**

**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, 2013**

**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 revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also 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 deferred 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, 2013**

**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, 2013**

**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 revenue (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, 2013**

**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 \$161,255 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 2012 Pay 2013 levy, normally revenue for the 2013-14 fiscal year, are also advance recognized at June 30, 2013, 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 deferred 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, 2013, 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, 2013**

**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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt 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, 2013, compensated absences totaling \$27,382 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, 2013**

**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 Revenues**

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for property taxes levied for the subsequent year, delinquent property taxes, school lunch balances for students, Community Service Fund excess fund balance penalties, and 2012-2013 School Readiness fees.

**P. 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.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2143**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. Risk Management (Continued)**

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.

**Q. 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.

**R. 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, 2012, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**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.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2143**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

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, 2013, 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, 2013**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

At June 30, 2013, the District had the following investments:

**External Investment Pools -**

Investment Type

Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 59,492
Minnesota School District MAX Fund (MSDMAX)	1,725,955
	\$ 1,785,447

The Minnesota School District Liquid Asset Fund is an external investment pool 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 pool 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	\$ 239,571
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	59,492
Minnesota School District Max Fund (MSDMAX)	1,725,955
	\$ 2,025,018

Amounts are presented on the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 2,002,614
Cash and Investments - Statement of Fiduciary Net Position	22,404
Total Cash and Investments	\$ 2,025,018

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
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	2,145,238	32,034	-	2,177,272
Total Capital Assets, Being Depreciated	7,537,727	32,034	-	7,569,761
Accumulated Depreciation for				
Land Improvements	(267,665)	(1,662)	-	(269,327)
Buildings and Improvements	(4,165,012)	(78,623)	-	(4,243,635)
Equipment	(1,457,227)	(147,303)	-	(1,604,530)
Total Accumulated Depreciation	(5,889,904)	(227,588)	-	(6,117,492)
Total Capital Assets, Being Depreciated, Net	1,647,823	(195,554)	-	1,452,269
Governmental Activities Capital Assets, Net	<u>\$ 1,679,223</u>	<u>\$ (195,554)</u>	<u>\$ -</u>	<u>\$ 1,483,669</u>

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

Administration	\$ 2,153
District Support Services	2,723
Regular Instruction	44,517
Vocational Education Instruction	2,104
Special Education Instruction	585
Instructional Support Services	10,833
Pupil Support Services	67,948
Sites and Buildings	94,165
Food Service	2,417
Community Service	143
Total Depreciation Expense, Governmental Activities	<u>\$ 227,588</u>

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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	\$ 9,598	\$ 29,065
Total Lease Purchase Obligations					9,598	29,065
Other Postemployment Benefits Payable					-	46,795
Compensated Absences Payable					27,382	27,382
					<u>\$ 36,980</u>	<u>\$ 103,242</u>

**B. Description of Long-Term Liabilities**

**Obligation under Capital Leases**

The District has 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 \$20,402 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, 2013.

<u>Year Ending June 30,</u>	
2014	\$ 12,249
2015	12,249
2016	<u>9,186</u>
Total Minimum Lease Payments	33,684
Less Amounts Representing Interest	<u>4,619</u>
Present Value of Net Minimum Lease Payments	<u>\$ 29,065</u>

**Compensated Absences**

The amount of the estimated obligation at June 30, 2013, is \$27,382. The District's General Fund finances compensated absences on a pay-as-you-go basis.

**C. Changes in Long-Term Liabilities**

	June 30, 2012	Net Additions	Retirements	June 30, 2013
Capital Leases Payable	\$ 81,300	\$ -	\$ 52,235	\$ 29,065
Other Postemployment Benefits Payable	33,263	175,107	161,575	46,795
Compensated Absences Payable	30,897	77,017	80,532	27,382
	<u>\$ 145,460</u>	<u>\$ 252,124</u>	<u>\$ 294,342</u>	<u>\$ 103,242</u>

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2143**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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 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.

**B. 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.

**C. 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.

**D. 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.

**E. 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.

**F. 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.

**G. 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.

**H. 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.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 RESTRICTED FUND BALANCES (CONTINUED)**

**I. 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.

**J. Restricted for Community Education Programs**

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

**K. 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.

**L. 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.

**M. 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, 2013, 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 defined benefit pension plans administered by the 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.

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.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 7 PENSION PLANS (CONTINUED)**

**A. Teachers Retirement Association (TRA) (Continued)**

**1. Plan Description (Continued)**

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](http://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 6.0% and 9.5%, respectively, of their annual covered salary. The TRA employer contribution rates are 6.5% for Coordinated members and 10.0% for Basic members.

The District's contributions for the years ending June 30, 2013, , and were \$277,549, \$249,104, and \$224,053, 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. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 7 PENSION PLANS (CONTINUED)**

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

**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 2013.

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, 2013, , and were \$102,750, \$99,588, and \$97,847, 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, 2013, , and 2011 are \$69,401, \$67,279, and \$70,358, respectively. The related employee contributions were \$130,767, \$127,340, and \$130,524, for the years ended June 30, 2013, , and 2011, 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, 2013**

**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, 2013**

**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 2013, the District contributed \$161,575 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	1,497
Adjustment to Annual Required Contribution	<u>(2,160)</u>
Annual OPEB Cost (Expense)	175,107
Contributions Made	<u>(161,575)</u>
Increase in Net OPEB Obligation	13,532
Net OPEB Obligation - Beginning of Year	<u>33,263</u>
Net OPEB Obligation - End of Year	<u><u>\$ 46,795</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 175,107	91.92%	\$ 46,795
6/30/2012	184,586	127.01%	33,263
6/30/2011	184,747	96.91%	83,128

**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, 2013**

**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**

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**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%

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**SUPPLEMENTARY INFORMATION**

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
SCHEDULE OF CHANGES IN FUND EQUITIES  
YEAR ENDED JUNE 30, 2013**

	<b>Fund Equities June 30, 2012</b>	<b>Revenues and Other Financing Sources</b>	<b>Expenditures</b>	<b>Transfers</b>
<b>GOVERNMENTAL FUNDS</b>				
General Fund				
Nonspendable				
Prepaid Items	\$ 42,219	\$ -	\$ -	\$ (6,143)
Restricted for				
Deferred Maintenance	10,658	59,237	38,823	-
Levy Reduction	17,403	-	-	-
Learning and Development	16,863	185,085	181,534	-
Gifted and Talented	2,164	11,945	12,229	-
Basic Skills	8,039	303,927	296,264	-
Health and Safety	(123,486)	(11,465)	32,179	-
Operating Capital	62,387	217,417	167,186	-
Disabled Accessibility	2,276	-	-	-
Safe School Crime	16,978	29,618	25,549	-
Career and Technical Programs	-	-	-	-
Assigned for Separation/Retirement Benefits	87,000	-	-	(11,000)
Unassigned	2,478,880	8,215,640	8,171,493	17,143
Total General Fund	<u>2,621,381</u>	<u>9,011,404</u>	<u>8,925,257</u>	<u>-</u>
Food Service Fund				
Nonspendable				
Inventory	22,741	-	-	1,009
Restricted for				
Other Purposes	59,049	426,938	459,449	(1,009)
Total Food Service Fund	<u>81,790</u>	<u>426,938</u>	<u>459,449</u>	<u>-</u>
Community Service Fund				
Restricted for				
Restricted for Community Education	10,985	111,558	104,683	-
Restricted for E.C.F.E.	9,270	56,823	40,148	-
Restricted for School Readiness	4,051	48,565	51,717	-
Other Purposes	7,997	25,463	21,740	-
Total Community Service Fund	<u>32,303</u>	<u>242,409</u>	<u>218,288</u>	<u>-</u>
<b>TOTAL GOVERNMENTAL FUNDS</b>	<u><u>\$ 2,735,474</u></u>	<u><u>\$ 9,680,751</u></u>	<u><u>\$ 9,602,994</u></u>	<u><u>\$ -</u></u>

**Fund Equities,  
June 30, 2013**

<u>Total</u>	<u>Restricted</u>	<u>Unrestricted</u>
\$ 36,076	\$ -	\$ 36,076
31,072	31,072	-
17,403	17,403	-
20,414	20,414	-
1,880	1,880	-
15,702	15,702	-
(167,130)	(167,130)	-
112,618	112,618	-
2,276	2,276	-
21,047	21,047	-
-	-	-
76,000	-	76,000
2,540,170	-	2,540,170
<u>2,707,528</u>	<u>55,282</u>	<u>2,652,246</u>
23,750	23,750	-
25,529	25,529	-
<u>49,279</u>	<u>49,279</u>	<u>-</u>
17,860	17,860	-
25,945	25,945	-
899	899	-
11,720	11,720	-
<u>56,424</u>	<u>56,424</u>	<u>-</u>
<u>\$ 2,813,231</u>	<u>\$ 160,985</u>	<u>\$ 2,652,246</u>

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**SINGLE AUDIT AND OTHER REQUIRED REPORTS**

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013**

<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	\$ 25,355
Total Non-Cash Assistance			\$ 25,355
Cash Assistance:			
School Breakfast Program	# 10.553	1-2143-000	22,810
National School Lunch Program	# 10.555	1-2143-000	139,596
Total Cash Assistance			162,406
Total US Department of Agriculture			187,761
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	135,409
Special Education - Grants to States	& 84.027	1-2143-000	239,913
Special Education - Preschool Grants	& 84.173	1-2143-000	18,311
Special Education - Grants for Infants and Families	84.181	1-2143-000	3,720
Career and Technical Education - Basic Grants to States	84.048	1-2143-000	3,658
Improving Teacher Quality State Grants	84.367	1-2143-000	43,311
Total Cash Assistance, U.S. Department of Education			444,322
TOTAL FEDERAL FINANCIAL ASSISTANCE EXPENDED			\$ 632,083

# - Child Nutrition Cluster  
& - Special Education Cluster

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013**

**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.

**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, 2013, 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 13, 2013.

**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 entity'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 2013-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as items 2013-002 and 2013-003 to be significant deficiencies.

**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*.

**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 13, 2013

**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, 2013. 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, 2013.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

Independent School District No. 2143's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

**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 2013-004 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 13, 2013

## 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, 2013, and the related notes to the financial statements and have issued our report thereon dated December 13, 2013.

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 Responses as item 2013-003. 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 13, 2013

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

**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. Three deficiencies in internal control over financial reporting were disclosed during the audit of the basic financial statements. One of the findings was considered to be a material weakness and the other two findings were considered to be significant deficiencies.
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, 2013**

**Part II: Findings Related to Internal Control Over Financial Reporting**

**Finding: 2013-001      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, 2013

**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, 2013**

**Part II: Findings Related to Internal Control Over Financial Reporting**

**Finding: 2013-002      CONTROLS OVER PAYROLL PROCESSING**

**Condition:**                      Controls established by the District over the payroll reporting process were not completely effective. One of forty payroll disbursements tested were calculated and paid incorrectly resulting in an underpayment of approximately \$40.

**Criteria:**                         The District should have controls in place to ensure staff are paid accurately.

**Cause:**                             Oversight by management.

**Effect:**                            The potential exists that a material error could occur and not be prevented or detected by the District's internal controls.

**Recommendation:**         The District should perform internal audits over a sample of payroll transactions throughout the year to ensure controls are operating effectively and payroll is calculated and paid correctly.

**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 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, 2014

**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, 2013**

**Part II: Findings Related to Internal Control Over Financial Reporting**

**Finding: 2013-003      UFARS Coding**

**Condition:**                      During our testing of 40 non-payroll expenditures we noted that one invoice had an incorrect program code.

**Criteria:**                        Revenues and expenditures have to be recorded in the proper UFARS codes.

**Cause:**                            Proper account was not used.

**Effect:**                            The coding was not in compliance with UFARS.

**Recommendation:**          We recommend the District be aware of state statutes relating to 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:**

Continue training of business staff in financial reporting to review invoices for proper UFARS coding

**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, 2014

**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, 2013**

**Part III: Federal Awards Findings and Questioned Costs**

**Finding: 2013-004**      **CHILD NUTRITION CLUSTER, CFDA #10.553, #10.555 and #10.556  
ALL GRANT YEARS  
UNITED STATES DEPARTMENT OF AGRICULTURE  
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION  
CONTROLS OVER ELIGIBILITY**

**Condition:**              Two of forty free and reduced eligibility applications selected for testing were misclassified. The student was entered as qualified to receive free meals in the District's eligibility determination software. However, the students' income applications did not qualify the students for free meal status. The students should have been paid full price for meals during the 2012-2013 school year.

**Criteria:**                The Department of Agriculture, Food and Nutrition Services provides income eligibility guidelines for Child Nutrition Programs. The District must classify eligibility of students for free and reduced meals based on these guidelines.

**Questioned Costs:**      \$405

**Context:**                Two of forty students eligible for free and reduced meals tested was misclassified to receive free meals for the 2012-13 school year.

**Effect:**                 The District received improper reimbursement rates for meals served to ineligible students.

**Cause:**                 Not Known.

**Recommendation:**    We recommend that the District implement a review process whereby someone independent of the preparer review and approve eligibility determinations..

**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, 2014

**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, 2013**

**Part IV: Findings and Questioned Costs– Minnesota Legal Compliance**

See finding 2013-003.

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AUDIT FINDINGS  
JUNE 30, 2013**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
None noted.			

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**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING  
STANDARDS COMPLIANCE TABLE  
YEAR ENDED JUNE 30, 2013**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$ 9,011,404	\$ 9,011,391	\$ 13	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 8,925,257	\$ 8,925,245	\$ 12	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	\$ 36,076	\$ 36,076	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ -	\$ -	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 31,072	\$ 31,072	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (167,130)	\$ (167,130)	\$ -	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	\$ -	\$ -	\$ -	<b>07 DEBT SERVICE</b>			
414 Operating Debt	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
416 Levy Reduction	\$ 17,403	\$ 17,403	\$ -	Total Expenditures	\$ -	\$ -	\$ -
419 Encumbrances	\$ -	\$ -	\$ -	<i>Nonspendable:</i>			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
424 Operating Capital	\$ 112,618	\$ 112,618	\$ -	<i>Restricted:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ 2,276	\$ 2,276	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
428 Learning & Development	\$ 20,414	\$ 20,414	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -	<b>08 TRUST</b>			
438 Gifted and Talented	\$ 1,880	\$ 1,880	\$ -	Total Revenue	\$ 10,522	\$ 10,522	\$ -
439 Grad Standards	\$ -	\$ -	\$ -	Total Expenditures	\$ 9,042	\$ 9,042	\$ -
441 Basic Skills Programs	\$ 15,702	\$ 15,702	\$ -	<i>Unassigned:</i>			
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	422 Unassigned	\$ 18,224	\$ 18,224	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	<b>09 AGENCY</b>			
446 First Grade Preparedness	\$ -	\$ -	\$ -	<i>Unassigned: Should Always Be 0-</i>			
449 Safe School Crime	\$ 21,047	\$ 21,047	\$ -	422 Unassigned	\$ -	\$ -	\$ -
450 Transition to Pre-K	\$ -	\$ -	\$ -	<b>20 INTERNAL SERVICE</b>			
451 QZAB Payments	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
<i>Committed:</i>				422 Unassigned	\$ -	\$ -	\$ -
418 Committed for Severance	\$ -	\$ -	\$ -	<b>25 OPEB REVOCABLE TRUST</b>			
461 Committed	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Assigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
462 Assigned	\$ 76,000	\$ 76,000	\$ -	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned	\$ -	\$ -	\$ -
422 Unassigned	\$ 2,540,170	\$ 2,540,171	\$ (1)	<b>45 OPEB IRREVOCABLE TRUST</b>			
<b>02 FOOD SERVICE</b>				Total Revenue	\$ -	\$ -	\$ -
Total Revenue	\$ 426,938	\$ 426,937	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Total Expenditures	\$ 459,449	\$ 459,448	\$ 1	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned	\$ -	\$ -	\$ -
460 Nonspendable	\$ 23,750	\$ 23,750	\$ -	<b>47 OPEB DEBT SERVICE</b>			
<i>Restricted:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
464 Other Purposes	\$ 25,529	\$ 25,529	\$ -	<i>Restricted:</i>			
<i>Unassigned:</i>				464 Other Purposes	\$ -	\$ -	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
<b>04 COMMUNITY SERVICE</b>				463 Unassigned	\$ -	\$ -	\$ -
Total Revenue	\$ 242,409	\$ 242,410	\$ (1)	<b>03 UNASSIGNED</b>			
Total Expenditures	\$ 218,288	\$ 218,289	\$ (1)	Total Revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<b>05 UNASSIGNED</b>			
431 Community Education	\$ 17,860	\$ 17,860	\$ -	Total Revenue	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 25,945	\$ 25,945	\$ -	Total Expenditures	\$ -	\$ -	\$ -
444 School Readiness	\$ 899	\$ 899	\$ -	<i>Unassigned:</i>			
447 Adult Basic Education	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	<b>05 UNASSIGNED</b>			
464 Other Purposes	\$ 11,720	\$ 11,720	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
463 Unassigned	\$ -	\$ -	\$ -	<i>Unassigned:</i>			

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**EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

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## 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, 2013, 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, 2013, 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, 2013, 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 13, 2013

**WATERVILLE ELYSIAN MORRISTOWN PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2143  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2013**

<u>High School Student Activity</u>	Balance July 1, 2011	Receipts and Transfers	Disbursements and Transfers	Balance June 30, 2012
Europe Club	\$ 905	\$ 10,855	\$ 11,759	\$ 1
Band	730	1,023	890	863
Buccaneer Log	1,714	4,496	2,188	4,022
Cheerleaders	168	-	-	168
Choir	3,278	2,660	2,192	3,746
Class of 2016	-	340	49	291
Class of 2015	490	1,045	683	852
Class of 2014	57	11,868	8,058	3,867
Class of 2013	6,826	1,450	8,276	-
Clay Target Team	-	520	480	40
Close Up	7,137	6,676	12,654	1,159
Daneline	152	-	-	152
Drama	906	4,455	2,889	2,472
FCA	102	360	300	162
FFA	6,887	19,534	18,621	7,800
FCCLA	589	1,837	2,163	263
Football	-	3,320	2,900	420
Knowledge Bowl	233	-	-	233
PACT	957	1,575	1,645	887
School Store	6,060	6,152	6,907	5,305
Softball	-	364	364	-
Speech	1,882	11,641	12,007	1,516
STEM Club	2,043	14,224	2,715	13,552
Student Council	1,617	1,653	1,213	2,057
Volleyball	33	40	10	63
	<u>42,766</u>	<u>106,088</u>	<u>98,963</u>	<u>49,891</u>
 <u>Junior High Student Activity</u>				
K-8 Yearbook	3,830	3,910	4,135	3,605
Student Activity	1,345	1	62	1,284
Student Council	1,171	2,008	2,134	1,045
	<u>6,346</u>	<u>5,919</u>	<u>6,331</u>	<u>5,934</u>
	<u>\$ 49,112</u>	<u>\$ 112,007</u>	<u>\$ 105,294</u>	<u>\$ 55,825</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, 2013**

**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.



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## 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, 2013, and the related note to the financial statement, which collectively comprises the basic financial statement, and have issued our report thereon dated December 13, 2013. 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*. 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*

**CliftonLarsonAllen LLP**

Austin, Minnesota  
December 13, 2013

