

LODI SCHOOL DISTRICT
Lodi, Wisconsin

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2014

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Lodi, Wisconsin

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Independent Auditors' Report

To the School Board
Lodi School District
Lodi, Wisconsin

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 the Lodi School District ("District") as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lodi School District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions, budgetary comparison information and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lodi School District's basic financial statements. The combining nonmajor fund financial statements and the agency funds schedule of changes in assets and liabilities are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit* Guidelines, and are also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, the agency funds schedule of changes in assets and liabilities, and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 03, 2014 on our consideration of Lodi School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

December 03, 2014
Madison, Wisconsin

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

To the Board of Education
Lodi School District

The discussion and analysis of the Lodi School District's ("District") 2013-2014 financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on school district financial performance as a whole. Efforts have been made to provide comparison to prior year data when such data is available. It should be read in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The assets of the District exceeded liabilities at the close of fiscal year 2014 by \$15,885,942 (*net position*). For the year, net position increased by \$1,602,291.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$5.7 million or a total of 34.7% of total general fund expenditures.

The following events took place during fiscal 2013-2014:

- The School District was able to reduce expenses by taking the following measures:
 - Reduced staffing Full-time Equivalencies (FTE's).
 - Maintaining the board contribution for health insurance.

Overview of the Financial Statements

The basic financial statements are comprised of 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

- The *Statement of Net Position and Statement of Activities* provide information on a district-wide basis. The statements present an aggregate view of the District's finances. District-wide statements contain useful long-term information as well as information for the just-completed fiscal year.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

Overview of the Financial Statements (Continued)

- The remaining statements are *fund financial statements* that focus on individual parts of the District. Fund statements generally report operations in more detail than the District-wide statements.

The *notes to the financial statements* provide further explanation of some of the information in the statements and provide additional disclosures so statement users have a complete picture of the District's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

The major features of the District's financial statements, including the activities reported and the type of information contained, is shown in the following table:

Major Features of the District-wide and Fund Financial Statements:

	District-wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instruction, support services, debt service, capital projects, food service and community services	Assets held by the District on behalf of someone else Student and other organizations that have funds on deposit with the district are reported here.
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position. • Statement of Changes in Fiduciary Net Position.
Basis of accounting and measurement focus	Accrual accounting Economic resources focus	Modified accrual accounting Current financial resources focus	Accrual accounting Economic resources focus

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

Overview of the Financial Statements (Continued)

Major Features of the District-wide and Fund Financial Statements (Continued):

	District-wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Type of asset and liability information	All assets and liabilities; both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term These funds do not currently contain any capital assets, although they can.
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year Expenditures when goods or services have been received and the related liability are due and payable	All additions or deductions during the year, regardless of when cash is received and paid

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 Activities reports all revenues and expenses used to support the District. The Statement of Net Position reports all assets and liabilities and deferred outflows and inflows of resources available to support District activities. 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, deferred outflows, liabilities and deferred inflows, are one way to measure the District's overall financial position. Increases or decreases in the District's net position are one indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities should be considered.

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

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation, support services, debt service, capital projects, and administration. Property taxes and state formula aid finance most of these activities.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

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 sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like capital project funds).

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 funding future basic services. Governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Governmental funds information does not report on long-term commitments as is reported on the district-wide statements.
- *Fiduciary funds* – The District serves as a trustee, or fiduciary, for student organizations. The assets of these organizations belong to the organization and not the District. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and only by those to whom the assets belong. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014
(Continued)

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position for the years ended June 30, 2014 and 2013.

Table 1
Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 8,097,998	\$ 7,911,280
Capital assets	18,011,284	18,768,084
Total assets	<u>26,109,282</u>	<u>26,679,364</u>
Deferred Outflows of Resources	---	44,762
Liabilities		
Long-term liabilities	8,876,795	10,905,321
Other liabilities	1,346,545	1,535,154
Total liabilities	<u>10,223,340</u>	<u>12,440,475</u>
Net Position		
Invested in capital assets, net of related debt	12,216,284	11,178,084
Restricted	1,012,890	927,342
Unassigned/unrestricted	2,656,768	2,178,225
Total net position	<u>\$ 15,885,942</u>	<u>\$ 14,283,651</u>

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

Financial Analysis of the District as a Whole (Continued)

Table 2 provides summarized operating results and their impact on net position.

Table 2
Changes in Net Position from Operating Results

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Charges for services	\$ 1,167,402	\$ 1,137,928
Operating grants & contributions	2,037,415	2,018,719
General revenues		
Property taxes	12,021,363	11,884,775
State formula aid	5,601,689	5,679,120
Other	207,871	1,550,061
Total revenues	<u>21,035,740</u>	<u>22,270,603</u>
Expenses		
Instruction	10,932,233	10,733,343
Pupil & instructional services	1,202,241	1,199,740
Administration & finance	1,726,694	1,700,245
Maintenance & operations	2,294,111	2,109,460
Transportation	812,668	797,292
Interest on debt	189,221	246,932
Other	2,276,281	2,518,766
Total Expenses	<u>19,433,449</u>	<u>19,305,778</u>
Change in net position	\$ <u>1,602,291</u>	\$ <u>2,964,825</u>

The District relies primarily on property taxes (58% of total governmental revenues), and state formula aid (33%) to fund governmental activities. School funding regulations restrict the amount by which these two revenue sources, in combination, may be increased. This restriction, referred to as the revenue limit, is intended to hold down property taxes throughout the state. During the fiscal year, the District did not increase total revenues from the prior year.

General state aid is paid according to a formula taking into consideration district membership, shared cost, and equalized property value per member. The Lodi School District's equalized value per pupil and its' shared costs are lower than the state average.

As a result, the District's general state aid is decreased by \$77,431. State aid is further reduced by \$83,292 by the Milwaukee School Choice program.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

Financial Analysis of the District as a Whole (Continued)

The district made adjustments to its original budget during the year. Revenue and expense adjustments are made to reflect the anticipated changes needed to adjust instructional and non-instructional expenses.

The school district maintains a positive fund balance in the general fund. A positive fund balance represents a financial resource available to finance expenditures of a following fiscal period. A district with an appropriate fund balance will incur lower interest costs and reduce its reliance on short-term borrowing for cash flow purposes. The district has been increasing its fund balance consistently since the 2000-2001 fiscal year.

Budgetary Highlights

Consistent with current state statutes and regulations and original budget is adopted in October following determination of official enrollment and certification of state aids. Amendments are made to the original budget to reflect actual costs versus what was projected for each function. The major revisions to the original budget were made to reflect additional state aids that were not anticipated when the original budget was prepared. These amendments are approved by the board of education.

Total actual expenditures in the general fund were under the total general fund budget for the fiscal year by \$136,328, but were over budget in various functional categories. These functional over budget amounts were absorbed by other functions that were under budget. These variations were a result of the district focusing on the total general fund budget resulting in improper year end planning within the functions. This not expected to have any significant effect on future services or liquidity.

Capital Assets

At the end of fiscal year 2014, the District had invested over \$42.4 million in capital assets, including buildings, sites and equipment (see Table 3). Total accumulated depreciation on these assets was \$24.3 million. Asset acquisitions for governmental activities totaled \$100,636 with no disposals. The District recognized depreciation expense of \$857,436. (Detailed information about capital assets can be found in Note 3 to the financial statements.)

Table 3
Capital Assets
(Net of depreciation)

		<u>2014</u>	<u>2013</u>
Land	\$	214,307	\$ 214,307
Buildings and improvements		37,942,981	37,885,720
Furniture & equipment		4,198,990	4,155,615
Accumulated depreciation		<u>(24,344,994)</u>	<u>(23,487,558)</u>
Net capital assets	\$	<u>18,011,284</u>	\$ <u>18,768,084</u>

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Management Discussion and Analysis

June 30, 2014

(Continued)

Long-term Debt

At year-end the District had \$5,795,000 in bonds payable, a decrease of \$1,795,000 from fiscal year 2013. This decreased resulted from required repayments of principal and refinancing of debt. (Detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.)

Table 4
Outstanding Long-term Obligations

	<u>2014</u>	<u>2013</u>
General obligation debt	\$ <u>5,795,000</u>	\$ <u>7,590,000</u>

Debt of the District is secured by an irrevocable tax levy adopted by the School Board at the time of issuance. Wisconsin state statutes require that the first property tax receipts be segregated for annual debt service payments.

Factors bearing on the District's Future

Currently known circumstances that will impact the District's financial status in the future are:

- The passage of the 2013-15 State of Wisconsin biennial budget only marginally increased funding for public education during the two year period. Funding under the revenue limit was increased by \$75 per pupil and a separate categorical aid was funded and only the \$75 per pupil under the revenue limit is expected to carry forward beyond the current biennium. With a less than 1% increase in the allowable revenue the District can realize, there will be a budget shortfall for the foreseeable future.
- As of this writing, the November, 2014 election have been completed. In Wisconsin the Republican party holds the majority in both the Senate and Assembly along with the re-election of Republican Scott Walker as Governor. In the days following the election several high profile Republicans, including the Governor, have stated that they want to eliminate the Common Core Standards in Wisconsin and lift the cap on the state funded private school voucher program along with other major education priorities. In evaluating this rhetoric, public education leaders across the state are concerned about all of these priorities may mean for public education institutions over the next two to four years. The Governor will release his proposed budget in February, 2014 and leaders of both the Senate and Assembly have all but guaranteed a quick approval so the Governor can focus on a Presidential campaign if he so desires. The Governor's proposed budget will set the stage for the funding of public education in Wisconsin for the next few years and many people in public education circles are not optimistic about what it may hold.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brent Richter, Business Manager, School District of Lodi, District Office, 115 School Street, Lodi, WI 53555 (608) 592-3851.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Statement of Net Position

June 30, 2014

	Governmental Activities
Assets:	
Cash and investments	\$ 4,221,272
Taxes receivable	3,555,634
Due from other governments	255,887
Prepaid expense	65,205
Capital assets:	
Nondepreciable	214,307
Depreciable, net of accumulated depreciation	17,796,977
Net capital assets	<u>18,011,284</u>
Total assets	<u>26,109,282</u>
Liabilities:	
Accounts payable	390,472
Withholdings and related fringes payable	798,894
Accrued interest	24,229
Accrued salaries and related items	115,776
Deposits payable	17,174
Long-term liabilities:	
Long-term debt obligations due within one year	1,870,000
Long-term obligations	3,925,000
Unamortized premium on issuance	72,107
Compensated absences	101,742
Other post-employment benefits	2,907,946
Total liabilities	<u>10,223,340</u>
Net Position:	
Net investment in capital assets	12,216,284
Restricted for:	
Debt service	155,406
Food service	150,522
Capital projects	493,197
Other activities	213,765
Unrestricted	2,656,768
Total net position	<u>\$ 15,885,942</u>

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Statement of Activities
Year Ended June 30, 2014

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Operating Grants and Contributions		Net (Expenses) Revenues and Changes in Net Position
Governmental activities:					
Instruction:					
Regular instruction	\$ 7,097,546	\$ 460,535	\$ 699,040	\$	(5,937,971)
Special education instruction	2,216,959	35,759	1,028,628		(1,152,572)
Vocational instruction	544,712	---	---		(544,712)
Other instruction	1,073,016	76,581	---		(996,435)
Total instruction	10,932,233	572,875	1,727,668		(8,631,690)
Support services:					
Pupil services	513,859	---	---		(513,859)
Instructional staff services	688,382	---	48,502		(639,880)
Administration services	1,726,694	---	---		(1,726,694)
Operation and maintenance of plant	2,294,111	1,886	---		(2,292,225)
Pupil transportation	812,668	---	48,962		(763,706)
Central services	365,423	---	---		(365,423)
Other support services	256,087	---	---		(256,087)
Community services	265,759	115,787	---		(149,972)
Food service	643,444	476,854	212,283		45,693
Interest on debt	189,221	---	---		(189,221)
Unallocated depreciation	745,568	---	---		(745,568)
Total support services	8,501,216	594,527	309,747		(7,596,942)
Total governmental activities	\$ 19,433,449	\$ 1,167,402	\$ 2,037,415		(16,228,632)

General revenues:

Taxes:		
Property taxes, levied for general purposes		9,884,918
Property taxes, levied for debt service		1,923,050
Property taxes, levied for specific purposes		213,395
Other taxes		23,552
Federal and state aid not restricted to specific purposes:		
General		5,601,689
Other		11,958
Interest and investment earnings		10,649
Miscellaneous		161,712
Change in net position		1,602,291
Net position - beginning of year		14,283,651
Net position - end of year		\$ 15,885,942

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

**Balance Sheet
Governmental Funds**

June 30, 2014

	<u>General</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments	\$ 3,176,917	\$ 1,044,355	\$ 4,221,272
Taxes receivable	3,555,634	---	3,555,634
Due from other governments	248,841	7,046	255,887
Prepaid expense	65,205	---	65,205
	<u>\$ 7,046,597</u>	<u>\$ 1,051,401</u>	<u>\$ 8,097,998</u>
Total assets			
 Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 378,180	\$ 12,292	\$ 390,472
Withholdings and related fringes payable	793,849	5,045	798,894
Accrued payroll	111,776	4,000	115,776
Deposits payable	---	17,174	17,174
Total liabilities	<u>1,283,805</u>	<u>38,511</u>	<u>1,322,316</u>
 Fund Balances			
Nonspendable	65,205	---	65,205
Restricted	---	1,012,890	1,012,890
Unassigned	5,697,587	---	5,697,587
Total fund balances	<u>5,762,792</u>	<u>1,012,890</u>	<u>6,775,682</u>
 Total liabilities and fund balances	 <u>\$ 7,046,597</u>	 <u>\$ 1,051,401</u>	 <u>\$ 8,097,998</u>

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position**

June 30, 2014

Total fund balances - governmental funds \$ 6,775,682

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

Cost of the assets	\$ 42,356,278	
Accumulated depreciation	<u>(24,344,994)</u>	
		18,011,284

Long-term liabilities and related items, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(5,795,000)	
Compensated absences	(101,742)	
Unamortized premium on issuance	<u>(72,107)</u>	
		(5,968,849)

The District had cumulatively made less than the required annual contribution to fund their post-employment benefit liability resulting in a liability. The post-employment benefit liability is not currently payable and thus not reported in the governmental funds.

(2,907,946)

Accrued interest payable on the bonds is not due and payable in the current period and therefore is not reported as a liability in the funds.

(24,229)

Total net position - governmental activities \$ 15,885,942

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Statement of Revenues, Expenditures, and Changes in Fund Balances**Governmental Funds**

Year Ended June 30, 2014

	<u>General</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Local	\$ 10,123,068	\$ 2,770,862	\$ 12,893,930
Interdistrict payments within Wisconsin	362,671	16,820	379,491
Intermediate sources	58,591	---	58,591
State	6,465,270	7,676	6,472,946
Federal	864,462	204,607	1,069,069
Other	135,523	---	135,523
Total revenues	<u>18,009,585</u>	<u>2,999,965</u>	<u>21,009,550</u>
Expenditures:			
Instruction:			
Current	10,422,221	51,452	10,473,673
Interdistrict	478,850	---	478,850
Capital outlay	13,230	---	13,230
Support Services:			
Current	6,738,663	902,944	7,641,607
Capital outlay	61,592	25,814	87,406
Debt service	726	1,954,296	1,955,022
Total expenditures	<u>17,715,282</u>	<u>2,934,506</u>	<u>20,649,788</u>
Excess of revenues over expenditures	294,303	65,459	359,762
Other Financing Sources (uses):			
Operating transfers in	---	20,089	20,089
Operating transfers out	(20,089)	---	(20,089)
Total other financing sources (uses)	<u>(20,089)</u>	<u>20,089</u>	<u>---</u>
Net change in fund balances	274,214	85,548	359,762
Fund Balances - Beginning of year	<u>5,488,578</u>	<u>927,342</u>	<u>6,415,920</u>
Fund Balances - End of year	<u>\$ 5,762,792</u>	<u>\$ 1,012,890</u>	<u>\$ 6,775,682</u>

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

**Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities**

Year Ended June 30, 2014

Total net change in fund balances - governmental funds \$ 359,762

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses.

Depreciation expense	\$ (857,436)	
Capital outlays	<u>100,636</u>	(756,800)

In the statement of activities, post-employment benefits 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. 218,398

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds payable	<u>1,795,000</u>	1,795,000
---------------	------------------	-----------

Amortization reduces the balance of the respective balance sheet item. The amortization is an expenditure in the statement of net position, but is not shown in the governmental funds.

Amortization of loss on refunding	(44,762)	
Amortization of premiums on issuance	<u>26,189</u>	(18,573)

In the statement of activities, compensated absences 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. (11,061)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 15,565

Change in net position of governmental activities \$ 1,602,291

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Statement of Fiduciary Net Position

June 30, 2014

	<u>Private Purpose Trusts</u>	<u>Agency Fund</u>
Assets:		
Cash and investments	\$ 234,866	\$ 95,135
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Position:		
Liabilities:		
Due to student groups	\$ ---	\$ 95,135
Net position:		
Nonspendable	138,181	---
Reserved	96,685	---
Total liabilities and net position	\$ 234,866	\$ 95,135
	<hr/> <hr/>	<hr/> <hr/>

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

	<u>Private Purpose Trusts</u>
Additions:	
Interest	\$ 23,306
Deductions:	
Scholarships awarded	<hr/> 15,750
Change in net position	7,556
Net position - June 30, 2013	<hr/> 227,310
Net position - June 30, 2014	<hr/> <hr/> \$ 234,866

The accompanying notes to financial statements
are an integral part of these statements.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

1. Summary of Significant Accounting Policies

A. Introduction

The Lodi School District is organized as a common school district. The District, governed by a seven-member elected school board, is fiscally independent with taxing and borrowing powers. Services provided by the District are primary and secondary education and special education.

The financial statements of the Lodi School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

B. Component Units

Accounting principles generally accepted in the United States of America require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the general purpose financial statements. The District has no component units, and it is not included in any other governmental reporting entity.

C. Basis of Presentation

District-Wide Statements

The statement of net position and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues have been classified to the function where the majority of the expenditures relating to it have been incurred. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds; each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements (Continued)

The District reports the following major governmental funds:

General Fund - The General Fund is the operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in other funds. This fund includes activities associated with providing educational programs for students with disabilities.

The District accounts for assets held as an agent for various student and parent organizations in a fiduciary agency fund. The District accounts for fiduciary activities for scholarships to higher education in a private purpose trust fund.

D. Measurement Focus and Basis of Accounting

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net position may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

E. Deposits and Investments

The District's cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Cash and investment balances for individual funds are pooled unless maintained in segregated accounts.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

State statutes permit the District to invest available cash balances, other than debt services funds, in time deposits of authorized depositories, U.S. Treasury obligations, U.S. agency issues, high grade commercial paper, and the local government pooled investment fund administered by the state investment board. Available balances in the Debt Service Fund may be invested in municipal obligations, obligations of the United States, and the local government pooled-investment fund.

F. Receivables and Payables

Property taxes are recognized as revenues in the year for which they are budgeted. The District tax levy is certified in November of the current fiscal year for collection by the taxing municipalities based on the past October 1 full or "equalized" taxable property values. The District is paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. Under the Wisconsin Statutes, Dane and Columbia Counties purchase the outstanding property taxes of the District in August of each year. This statutory guarantee assures the District full collection of all property taxes within sixty days of its year end, and hence, the availability of these funds to finance expenditures of the fiscal year for which the taxes were levied.

The current portion of lending/borrowing arrangements between funds is identified as due to/from other funds. The noncurrent portion of outstanding balances between funds is reported as advances to/from other funds. Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources. The District does not have any advances between funds.

All accounts receivable are shown at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

G. Interfund Transactions

Individual fund transfers and interfund receivables and payable activity for the year ending June 30, 2014 are as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Transfers:			
Operating support	Package-Coop Fund	General Fund	\$ 20,089
Due to/from:			
None			

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets

Capital assets are reported at historical cost or estimated historical cost. Maintenance and repair costs are charged to expenses as incurred and betterments are capitalized as assets. Upon disposal of land, buildings and equipment, a gain or loss is reflected in the statement of activities. Property and equipment and related depreciation expense are not reflected in the Governmental Fund Financial Statements.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,000	Straight-line	7 - 50 years
Equipment and furniture	1,000	Straight-line	5 - 20 years

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Fund Balance – Governmental Funds

The Governmental Accounting Standards Board (GASB) has issued defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – Amounts that cannot be spent because they are either not in spendable form (i.e. convertible into cash) or legally required to be maintained intact.
- Restricted – Either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School Board.
- Assigned – Amounts that are constrained by the School Board's intent to be used for specific purposes, but are neither restricted nor committed.
- Unassigned – The residual classification for the General Fund (fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund), and deficit fund balances within other funds.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

1. Summary of Significant Accounting Policies (Continued)

J. Fund Balance – Governmental Funds (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

K. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

The District's policy allows employees to earn varying amounts of severance and vacation pay for each year employed. Upon retirement or termination of employment, the employee is entitled to payment in cash, the amount varying based on the individual's employment contract. The District accrued that which it deems probable of payout. The liability is reported on the government-wide financial statements. For governmental fund financial statements, the unpaid compensated absences are not expected to be paid using expendable available resources and, therefore, the liability is not reported.

The District employees participate in the Wisconsin Retirement System. All contributions made by the District on behalf of its employees are reported as expenditures when paid.

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Other Assets

Expendable supplies or noncapital items acquired for initial use in subsequent fiscal periods are recorded as inventories and/or prepaid expenses. Prepaid insurance represents payments made by the District for which benefits extend beyond June 30th and have not been earned by the recipient

N. Subsequent Events

Management has evaluated all subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (December 03, 2014). There are no subsequent events which require recognition or disclosure.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

1. Summary of Significant Accounting Policies (Continued)

O. Deferred Outflows and Inflows of Resources

The Government Accounting Standards Board (GASB) has issued Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). Under GASB 65, in addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) or inflow of resources (revenue) until then. The District has no items that qualify for reporting in either of these categories.

2. Cash and Investments

Cash and equivalents and investments as shown on the District's statement of net position are subject to the following risks:

	<u>Amount</u>	<u>Risks</u>
Cash and cash equivalents		
Demand deposits	\$ 535,151	Custodial
Local government investment pool (LGIP)	206,071	Custodial
Wisconsin investment series cooperative (WISC)	67,505	Custodial
Money market	3,642,573	Custodial
Total cash and investments	\$ <u>4,451,300</u>	

The District's cash and equivalents are reported in the financial statements as follows:

Statement of net position:		
Cash and investments	\$ 4,221,272	
Statement of fiduciary net position:		
Private purpose trust	134,893	
Agency fund	95,135	
Total cash and investments	\$ <u>4,451,300</u>	

Investments are stated at fair value which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

2. Cash and Investments (Continued)

Wisconsin Statute 66.0603 authorizes the District to invest in the following types of instruments:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association that is authorized to transact business in Wisconsin, if the time deposit matures in no more than three years.
- Bonds or securities issued or guaranteed as to principal or interest by the federal government or by a commission, board, or other instrumentality of the federal government (U.S. Treasuries and U.S. agencies).
- Bonds or securities of any Wisconsin county, city, drainage district, technical college district, village, town, or school district.
- Bonds issued by a local exposition district, local professional baseball park district, or local professional stadium district created under Subchapter III or IV of Chapter 229 of the Wisconsin Statutes or bonds issued by the University of Wisconsin Hospitals or Clinics Authority.
- Any security maturing in seven years or less of the acquisition date with either the highest or second highest rating category of a nationally recognized rating agency.
- Securities of open-end management investment companies or investment trusts, if the portfolio is collateralized by bonds or securities, subject to various conditions and investment options.
- A local government investment pool, subject to certain conditions.

The District has adopted an investment policy which permits all investments allowed under the state statutes as described above.

Deposits in each local bank and area bank are insured by the FDIC in the amount of \$250,000. Deposits and the Wisconsin Local Government Investment Pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000 per district. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual school districts.

Custodial Risk – Deposits: Is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to the District. The District's carrying value for demand deposits, LGIP, WISC and money market was \$4,451,300 at June 30, 2014 and the bank's carrying value was \$4,565,853, of which \$856,071 was fully insured and \$3,709,782 was uninsured and uncollateralized. The District does not have a policy on custodial risk.

Custodial Risk – Investment: Is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy on custodial risk.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates. The District does not have a policy regarding interest rate risk. All investments have a maturity date of less than one year.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District does not have a policy regarding credit risk.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

3. Capital Assets

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated				
Sites	\$ 214,307	\$ ---	\$ ---	\$ 214,307
Capital assets being depreciated				
Buildings and improvements	37,885,720	57,261	---	37,942,981
Furniture & equipment	4,155,615	43,375	---	4,198,990
Total capital assets being depreciated	42,041,335	100,636	---	42,141,971
Less accumulated depreciation	(23,487,558)	(857,436)	---	(24,344,994)
Total capital assets being depreciated, net of accumulated depreciation	18,553,777	(756,800)	---	17,796,977
Governmental activities capital assets, net of accumulated depreciation	\$ 18,768,084	\$ (756,800)	\$ ---	\$ 18,011,284

Depreciation expense was charged to governmental functions as follows:

Regular instruction	\$ 31,389
Vocational instruction	1,789
Other instruction	3,013
Special education	4,987
Co-curricular activities	6,677
Pupil services	380
Instructional staff services	2,335
Administrative services	6,897
Operations and maintenance	12,222
Food service	6,528
Central services	35,213
Community service	438
Unallocated	745,568
Total depreciation for governmental activities	<u>\$ 857,436</u>

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

4. Long-Term Liabilities

Long-term liabilities of the District are as follows:

<u>Type</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
G.O. Bonds	\$ 7,590,000	\$ ---	\$ 1,795,000	\$ 5,795,000	\$ 1,870,000
Compensated Absences	90,681	11,061	---	101,742	---
Total	<u>\$ 7,680,681</u>	<u>\$ 11,061</u>	<u>\$ 1,795,000</u>	<u>\$ 5,896,742</u>	<u>\$ 1,870,000</u>

Total interest paid and expensed (including accrual) during the year for the year ended June 30, 2014 on long-term liabilities was \$159,175 and \$143,612 respectively.

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The long-term debt will be retired by future property tax levies and resources accumulated in the Debt Service Fund.

General obligation debt at June 30, 2014 is comprised of the following individual issues:

<u>Description</u>	<u>Issue Dates</u>	<u>Interest Rates (%)</u>	<u>Dates of Maturity</u>	<u>Balance June 30, 2014</u>
G.O. Refunding Bonds	02/01/12	1.5% - 2.0%	04/01/17	\$ <u>5,795,000</u>

The 2014 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$1,034,059,400. The legal debt limit and margin of indebtedness as of June 30, 2014, in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (10% of \$1,034,059,400)	\$ 103,405,940
Deduct long-term debt applicable to debt margin	<u>5,795,000</u>
Margin of indebtedness	<u>\$ 97,610,940</u>

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

4. Long-Term Liabilities (Continued)

Aggregate cash flow requirements for the retirement of long-term principal and interest on June 30, 2014 follow:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	1,870,000	96,925	1,966,925
2016	1,925,000	68,875	1,993,875
2017	2,000,000	40,000	2,040,000
Totals	<u>\$ 5,795,000</u>	<u>\$ 205,800</u>	<u>\$ 6,000,800</u>

5. Excess of Actual Expenditures Over Budget in Individual Funds

The following general fund functions had an excess of actual expenditures over budget for the year ended June 30, 2014:

General Fund (fund 10):

Vocational Curriculum	\$	1,473
Physical Curriculum		43,292
Instructional Staff Services		97,957
Business Administration		123,384
Central Services		59,561
Other Non-Program Transactions		8,762

Special Education Fund (fund 27):

Pupil Services		64,468
Instructional Staff Services		242
Business Administration		63,216
Purchased Instructional Services		65,636

The excess expenditures were funded by other functions that were underbudget.

6. Fund Balances

As of June 30, 2014, fund balances are composed of the following:

General fund:		
Nonspendable prepaid expenses	\$	65,205
Unassigned		5,697,587
Restricted for special revenue trust		41,996
Restricted for food service		150,522
Restricted for community service		171,769
Restricted for other debt service retirement		155,406
Restricted for capital expansion		493,197
Total	<u>\$</u>	<u>6,775,682</u>

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

7. Employee Retirement Plans

All eligible Lodi School District employees participate in the Wisconsin Retirement System (“WRS”), a cost-sharing multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee’s date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee’s date of hire are eligible to participate in the WRS. Note: Employees hired to work nine or ten months per year (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

The employee required contribution is one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contributions unless provided by an existing collective bargaining agreement. Contribution rates for 2013 are:

	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	6.65%	6.65%
Executives & Elected Officials	7.00%	7.00%

The payroll for Lodi School District employees covered by the WRS for the year ended June 30, 2014 was \$8,684,721; the employer's total payroll was \$9,363,857. The total required contribution for the year ended June 30, 2014 was \$1,189,993, which consisted of \$594,996, or 6.85% of payroll from the employer and \$594,996, or 6.85% of payroll from employees. Total contributions for the year ending June 30, 2013 and 2012 were \$1,085,538 and \$1,031,106, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee’s three highest years’ earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and between April 24, 1998 and June 30, 2011 are immediately vested. Participants who initially become a WRS member on or after July 1, 2011 must accrue five years of credible service to be vested in the WRS.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

8. Post-Employment Benefits Trust

The Lodi School District Post-Employment Benefits Trust is a trust set up by the District to accumulate funds for the payment of the District's OPEB liability relating to medical insurance premiums. The trust does not require any employee or employer contributions. Employees participating in the OPEB benefit consisted of the following at July 1, 2012, the date of the latest actuarial valuation:

Retirees	24
Active	143
Number of participating employees	167

Annual OPEB and Stipend Costs and Recognized Obligation

The District's annual other post-employment benefit (OPEB) and stipend costs (expenses) are calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB and stipend costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan.

	<u>OPEB</u>	<u>Stipend</u>	<u>Total</u>
Annual required contribution (ARC)	\$ 224,822	\$ 97,508	\$ 322,330
Interest on net OPEB/stipend obligation	106,597	17,519	124,116
Adjustment to ARC	(167,397)	(25,420)	(192,817)
Annual OPEB / stipend cost	164,022	89,607	253,629
Contributions made	(472,027)	---	(472,027)
Change in net OPEB / stipend obligation	(308,005)	89,607	(218,398)
Net OPEB/stipend obligation – beginning of year	2,685,054	441,290	3,126,344
Net OPEB/stipend obligation – end of year	\$ 2,377,049	\$ 530,897	\$ 2,907,946

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 and two prior years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 164,022	287%	\$ 2,377,049
2013	(1,167,452)*	(43)%	2,685,054
2012	1,818,321	42%	4,335,589

* The District redefined its retiree benefit package for current and future retirees in all labor groups during the year ended June 30, 2013. The new retiree benefits package reduced the district's annual OPEB obligation causing a negative annual OPEB cost in the year of change.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Notes to Financial Statements
June 30, 2014
(Continued)

8. Post-Employment Benefits Trust (Continued)

The District's annual stipend (supplement pension costs), the percentage of annual supplemental pension costs contributed to the plan, and the net supplemental pension benefits obligation for the year ended June 30, 2014 and two prior years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Supplemental Pension Cost</u>	<u>Percentage of Annual Supplemental Pension Costs Contributed</u>	<u>Net Supplemental Pension Obligation</u>
2014	\$ 89,607	0%	\$ 530,897
2013	91,241	21%	441,290
2012	116,683	33%	350,049

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 the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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 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. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/2012
Actuarial cost method	Unit Credit
Amortization method	26 year open level dollar
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.97%
Projected payroll increases	3.00%
Medical care trend	10% decreasing down by 1.00% per year down to 5.00%

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Notes to Financial Statements

June 30, 2014

(Continued)

9. GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Government Accounting Standards Board has issued Statement No. 68 which will require the District to disclose its net stipend liability on the statement of net position, effective for the year ending June 30, 2015. GASB Statement No. 68 defines the liability as the difference between the total stipend liability and the value of assets set aside to pay benefits. This statement will have a material effect on the District's stipend liability compared to what is disclosed under current standards. As of July 1, 2011, the most recent actuarial valuation date, the District's net stipend liability, as defined by GASB Statement No. 68 was \$850,323.

10. Limitation on School District Revenues

Wisconsin statutes limit the amount of revenues school districts may derive from general school aids and property taxes unless a higher amount is approved by a referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the school board or by referendum prior to August 12, 1993
- A referendum on or after August 12, 1993

11. Risk Management

The Lodi School District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles.

12. Commitments and Contingencies

From time to time, the District is involved in legal actions, most of which normally occur in governmental operations. Legal actions are generally defended by the District's various insurance carriers, since most claims brought against the District are covered by insurance policies. In the opinion of District management, any legal actions and any other proceedings known to exist at June 30, 2014, are not likely to have a material adverse impact on the District's financial position.

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

Lodi School District
Lodi, Wisconsin

Schedule of Funding Progress - OPEB
June 30, 2014

Actuarial Valuation Date	Actuarial Valuation of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/12	-	\$ 2,685,054	\$ 2,685,054	0.00%	\$ 7,841,596	34.2%
07/01/09	-	13,167,492	13,167,492	0.00%	7,882,710	167.0%
07/01/07	4,547	13,310,017	13,305,470	0.00%	7,591,023	175.3%

The data presented in this schedule was taken from the calculation prepared by the actuary, except the covered payroll data was supplied by the district.

Schedule of Funding Progress - Stipend
June 30, 2014

Actuarial Valuation Date	Actuarial Valuation of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/12	-	\$ 850,323	\$ 850,323	0.00%	\$ 7,841,596	10.8%
07/01/09	-	887,020	887,020	0.00%	7,882,710	11.3%

The District is required to present the above information for the three most recent actuarial studies. The above referenced studies were the only studies performed. Once there have been three actuarial studies completed, information pertaining to the three most recent actuarial studies will be presented.

The data presented in this schedule was taken from the calculation prepared by the actuary, except the covered payroll data was supplied by the district.

Schedule of Employer Contributions
Year Ended June 30, 2013

Year Ended June 30,	OPEB			Stipend		
	Annual Required Contribution	Actual Contribution	Percent Contributed	Annual Required Contribution	Actual Contribution	Percent Contributed
2009	\$ 1,811,693	\$ 410,367	22.65%	\$ -	\$ -	0.00%
2010	1,863,749	421,207	22.60%	116,683	-	0.00%
2011	1,863,749	475,348	25.50%	116,683	-	0.00%
2012	1,863,749	393,660	21.12%	116,683	-	0.00%
2013	224,822	483,083	214.87%	97,508	-	0.00%
2014	224,822	472,027	209.96%	97,508	-	0.00%

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive
				(Negative)
Revenues:				
Local	\$ 10,071,976	\$ 10,071,976	\$ 10,123,068	\$ 51,092
Interdistrict payments within Wisconsin	328,848	328,848	304,039	(24,809)
Intermediate sources	---	---	6,054	6,054
State	5,917,897	6,060,333	5,869,132	(191,201)
Federal	533,000	533,000	525,716	(7,284)
Other	30,000	30,000	135,523	105,523
Total revenues	16,881,721	17,024,157	16,963,532	(60,625)
Expenditures:				
Instruction:				
Current	8,404,412	8,404,412	8,209,901	194,511
Interdistrict	528,736	528,736	478,850	49,886
Capital outlay	41,670	41,670	13,230	28,440
Support Services:				
Current	5,954,791	5,954,791	6,098,359	(143,568)
Capital outlay	68,577	68,577	61,592	6,985
Debt service	800	800	726	74
Total expenditures	14,998,986	14,998,986	14,862,658	136,328
Excess of revenues over expenditures	1,882,735	2,025,171	2,100,874	75,703
Other Financing Sources (uses):				
Operating transfers in (out)	(1,911,599)	(1,911,599)	(1,826,660)	84,939
Net change in fund balances	(28,864)	113,572	274,214	160,642
Fund Balances - Beginning of year	5,488,578	5,488,578	5,488,578	---
Fund Balances - End of year	<u>\$ 5,459,714</u>	<u>\$ 5,602,150</u>	<u>\$ 5,762,792</u>	<u>\$ 160,642</u>

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Budgetary Comparison Schedule

Special Education Fund

Year Ended June 30, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues:				
Interdistrict payments within Wisconsin	\$ 67,400	\$ 67,400	\$ 58,632	\$ (8,768)
Intermediate sources	41,000	41,000	52,537	11,537
State	567,500	567,500	596,138	28,638
Federal	367,000	367,000	338,746	(28,254)
Total revenues	<u>1,042,900</u>	<u>1,042,900</u>	<u>1,046,053</u>	3,153
Expenditures:				
Instruction:				
Current	2,351,214	2,351,214	2,212,320	138,894
Interdistrict	70,000	70,000	---	70,000
Support Services:				
Current	512,885	512,885	640,304	(127,419)
Total expenditures	<u>2,934,099</u>	<u>2,934,099</u>	<u>2,852,624</u>	<u>81,475</u>
Deficiency of revenues under expenditures	(1,891,199)	(1,891,199)	(1,806,571)	84,628
Other Financing Sources (uses):				
Operating transfers in (out)	<u>1,891,199</u>	<u>1,891,199</u>	<u>1,806,571</u>	<u>(84,628)</u>
Net change in fund balances	---	---	---	---
Fund Balances - Beginning of year	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Fund Balances - End of year	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Brodhead, Wisconsin

Notes to Required Supplemental Information

Year Ended June 30, 2014

1. Budgetary Information

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1D to the financial statements; however, the District adopts a budget for the special education fund which is reported with the general fund in accordance with generally accepted accounting principles. An explanation of the difference between Revenues, Expenditures, and Other Financing Sources (Uses) for budgetary funds on budgetary fund basis and a GAAP general fund basis is summarized below:

	<u>General Fund</u>	<u>Special Education Fund</u>
Revenues		
Actual amounts (budgetary basis)	\$ 16,963,532	\$ 1,046,053
Reclassification of special education	1,046,053	(1,046,053)
Total Revenues (GAAP)	<u>18,009,585</u>	<u>---</u>
Expenditures		
Actual amounts (budgetary basis)	14,862,658	2,852,624
Reclassification of special education	2,852,624	(2,852,624)
Total Expenditures (GAAP)	<u>17,715,282</u>	<u>---</u>
Excess of Revenues Over (Under) Expenditures		
Actual amounts (budgetary basis)	2,100,874	(1,806,571)
Reclassification of special education	(1,806,571)	1,806,571
Excess of Revenues Over (Under) Expenditures (GAAP)	<u>294,303</u>	<u>---</u>
Other Financing Sources (Uses)		
Actual amounts (budgetary basis)	(1,826,660)	1,806,571
Reclassification of special education	1,806,571	(1,806,571)
Total Other Financing Sources (Uses) (GAAP)	<u>(20,089)</u>	<u>---</u>
Net Change in Fund Balance		
Actual amounts (budgetary basis) (GAAP)	<u>274,214</u>	<u>---</u>
Fund Balance - Beginning of Year		
Actual amounts (budgetary basis) (GAAP)	<u>5,488,578</u>	<u>---</u>
Fund Balance - End of Year		
Actual amounts (budgetary basis) (GAAP)	<u>\$ 5,762,792</u>	<u>\$ ---</u>

See Independent Auditors' Report

OTHER SUPPLEMENTARY INFORMATION

LODI SCHOOL DISTRICT

Lodi, Wisconsin

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2014

	<u>Special Revenue Funds</u>							
	<u>Special Revenue Trust</u>	<u>Food Service</u>	<u>Package- Cooperative</u>	<u>Community Service</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	
Assets:								
Cash and investments	\$ 41,996	\$ 176,720	\$ 37	\$ 176,999	\$ 155,406	\$ 493,197	\$ 1,044,355	
Due from other governments	---	7,046	---	---	---	---	7,046	
Total assets	<u>\$ 41,996</u>	<u>\$ 183,766</u>	<u>\$ 37</u>	<u>\$ 176,999</u>	<u>\$ 155,406</u>	<u>\$ 493,197</u>	<u>\$ 1,051,401</u>	
Liabilities and Fund Balances:								
Liabilities:								
Accounts payable	\$ ---	\$ 12,292	\$ ---	\$ ---	\$ ---	\$ ---	\$ 12,292	
Withholdings and related fringes payable	---	1,185	37	3,823	---	---	5,045	
Accrued payroll	---	2,593	---	1,407	---	---	4,000	
Deposits payable	---	17,174	---	---	---	---	17,174	
Total liabilities	---	33,244	37	5,230	---	---	38,511	
Fund Balances:								
Restricted	41,996	150,522	---	171,769	155,406	493,197	1,012,890	
Total liabilities and fund balances	<u>\$ 41,996</u>	<u>\$ 183,766</u>	<u>\$ 37</u>	<u>\$ 176,999</u>	<u>\$ 155,406</u>	<u>\$ 493,197</u>	<u>\$ 1,051,401</u>	

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014**

	<u>Special Revenue Funds</u>							
	<u>Special</u>	<u>Food</u>	<u>Package-</u>	<u>Community</u>	<u>Debt</u>	<u>Capital</u>		
	<u>Revenue</u>	<u>Service</u>	<u>Cooperative</u>	<u>Service</u>	<u>Service</u>	<u>Projects</u>	<u>Total</u>	
	<u>Trust</u>							
Revenues:								
Local	\$ 27,469	\$ 460,034	\$ 30,939	\$ 279,182	\$ 1,923,105	\$ 50,133	\$ 2,770,862	
Interdistrict payments within Wisconsin	---	16,820	---	---	---	---	16,820	
State	---	7,676	---	---	---	---	7,676	
Federal	---	204,607	---	---	---	---	204,607	
Total revenues	27,469	689,137	30,939	279,182	1,923,105	50,133	2,999,965	
Expenditures:								
Instruction:								
Current	424	---	51,028	---	---	---	51,452	
Support Services:								
Current	9,725	630,764	---	262,455	---	---	902,944	
Capital outlay	8,896	13,926	---	2,992	---	---	25,814	
Debt service	---	---	---	---	1,954,296	---	1,954,296	
Total expenditures	19,045	644,690	51,028	265,447	1,954,296	---	2,934,506	
Excess (deficiency) of revenues over (under) expenditures	8,424	44,447	(20,089)	13,735	(31,191)	50,133	65,459	
Other Financing Sources (uses):								
Operating transfers in	---	---	20,089	---	---	---	20,089	
Net change in fund balances	8,424	44,447	---	13,735	(31,191)	50,133	85,548	
Fund Balances - Beginning of year	33,572	106,075	---	158,034	186,597	443,064	927,342	
Fund Balances - End of year	\$ 41,996	\$ 150,522	\$ ---	\$ 171,769	\$ 155,406	\$ 493,197	\$ 1,012,890	

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Agency Funds - Schedule of Changes in Assets and Liabilities

June 30, 2014

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Assets:				
Cash	\$ 60,778	\$ 213,091	\$ (178,734)	\$ 95,135
Liabilities:				
Due to student groups:				
High School	\$ 47,556	\$ 137,635	\$ (116,454)	\$ 68,737
Middle School	16,904	55,376	(47,125)	25,155
Elementary School	29	12,007	(12,594)	(558)
Primary School	(3,711)	8,073	(2,561)	1,801
Total liabilities	\$ 60,778	\$ 213,091	\$ (178,734)	\$ 95,135

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Expenditures of State Awards

Year Ended June 30, 2014

Awarding Agency	State	Accrued or			State	Accrued or
Pass-Through Agency	I.D.	Unearned			Disbursements/	Unearned
<u>Award Description</u>	<u>Number</u>	<u>Revenue at</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Revenue at</u>	<u>June 30, 2014</u>
		<u>July 1, 2013</u>				
WI Dept. of Public Instruction						
Special education and school-age parents**	255.101	\$ ---	\$ 596,138	\$ 596,138	\$ ---	
State school lunch	255.102	---	5,750	5,750	---	
Common school fund library aid	255.103	---	48,502	48,502	---	
Pupil transportation	255.107	---	48,962	48,962	---	
Equalization aids	255.201	104,428	5,394,625	5,390,881	100,684	
Peer Review and Mentoring	255.301	10,480	10,480	---	---	
School breakfast program	255.344	---	1,926	1,926	---	
Per pupil adjustment aid	255.945	---	120,975	120,975	---	
Educator effective eval sys	255.940	---	11,200	11,200	---	
		114,908	6,238,558	6,224,334	100,684	
Passed through CESA 5:						
Special education and school-age parents	255.101	---	52,537	52,537	---	
Passed through Portage School District:						
High cost special education	255.210	---	24,551	24,551	---	
Total		\$ 114,908	\$ 6,315,646	\$ 6,301,422	\$ 100,684	

** Total DPI aidable expenditures for the year ended June 30, 2014 were \$2,121,910.54

See Independent Auditors' Report

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Awarding Agency	Federal	Accrued or			Accrued or
Pass-Through Agency	Catalog	Unearned		Federal	Unearned
<u>Award Description</u>	<u>Number</u>	<u>Revenue at</u>	<u>Receipts</u>	<u>Disbursements/</u>	<u>Revenue at</u>
		<u>July 1, 2013</u>		<u>Expenditures</u>	<u>June 30, 2014</u>
U.S. Department of Agriculture					
Passed through Wisconsin Department of Public Instruction:					
<i>Nutrition Cluster:</i>					
Food Service Aid - Breakfast	10.553	\$ 2,214	\$ 21,327	\$ 20,099	\$ 986
Donated Commodities	10.555	---	39,174	39,174	---
Food Service Aid - Lunch	10.555	19,906	159,182	145,336	6,060
<i>Nutrition Cluster Subtotal</i>		<u>22,120</u>	<u>219,683</u>	<u>204,609</u>	<u>7,046</u>
Total U.S. Department of Agriculture		22,120	219,683	204,609	7,046
U.S. Department of Education					
Passed through Wisconsin Department of Public Instruction:					
<i>Title I Cluster:</i>					
ESEA Title IA Basic	84.010	90,301	189,644	129,308	29,965
<i>Special Education Cluster:</i>					
IDEA Flow Through	84.027	52,077	273,378	279,815	58,514
IDEA Discretionary	84.027	1,568	1,568	---	---
IDEA Preschool Entitlement	84.173	6,970	14,878	10,161	2,253
<i>Special Education Cluster Subtotal</i>		<u>60,615</u>	<u>289,824</u>	<u>289,976</u>	<u>60,767</u>
ESEA V-B Charter Schools	84.282	105,636	191,403	130,144	44,377
ESEA Title II-A Teacher Principal Training	84.367	41,372	76,537	36,255	1,090
Passed through CESA #5					
Carl Perkins	84.048	---	5,339	5,339	---
Total U.S. Department of Education		297,924	752,747	591,022	136,199
U.S. Department of Health and Human Services					
Direct Award:					
Substance Abuse and Mental Health	93.958	---	210,176	210,176	---
Passed through Wisconsin Department of Health Services:					
Medical Assistance Program	93.778	---	67,103	67,103	---
Passed through Wisconsin Department of Public Instruction:					
Center for Disease Control Basic	93.938	---	1,500	1,500	---
Total U.S. Department of Health and Human Services		<u>---</u>	<u>278,779</u>	<u>278,779</u>	<u>---</u>
Total		<u>\$ 320,044</u>	<u>\$ 1,251,209</u>	<u>\$ 1,074,410</u>	<u>\$ 143,245</u>

See Independent Auditors' Report

LODI SCHOOL DISTRICT
Brodhead, Wisconsin

Notes to Schedules of Expenditures of Federal and State Awards
June 30, 2014

1. General

The accompanying schedules of expenditures of federal and state awards represent the activity of all federal and state financial awards programs of the District. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying schedules of expenditures of federal and state awards are presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. The District applies all GASB pronouncements in accounting and reporting.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN REQUIRED BY GOVERNMENT AUDITING STANDARDS**

To the School Board
Lodi School District
Lodi, Wisconsin

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 the Lodi School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated December 03, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. These findings are identified as 2014-001, 2014-002, and 2014-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2014-003.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

December 03, 2014
Madison, Wisconsin

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES

To the School Board
Lodi School District
Lodi, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited the Lodi School District's (the "District") compliance of with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the District's major programs for the year ended June 30, 2014. The District's major federal and state 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 and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal and state 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State Single Audit Guidelines*. 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 or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State Program

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and the State Single Audit Guidelines and which are described in the accompanying schedule of findings and questioned costs as item 2014-003, 2014-004, 2014-005 and 2014-006. Our opinion on each major federal and state program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, 2014-003 and 2014-007 that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audits is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

December 03, 2014
Madison, Wisconsin

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

2013-001 Segregation of Duties

Condition and Criteria

The size of the District's administrative staff limits the duties that can be properly segregated.

Cause

Limitations in staff size.

Effect

The lack of segregation of duties could result in the possibility of undetected errors or irregularities.

Recommendation

It is important for management to be aware of this condition and to realize that the concentration of duties and responsibilities in one or two individuals is not desirable from a control standpoint. Under these conditions, the most effective controls rest in management's knowledge and monitoring of matters relating to the District's financial affairs.

District Response

The finding does not warrant further action. The costs outweigh the benefits

Status

There has been no change to this condition as of June 30, 2014.

2013-003 Maintenance of Effort

Department: United States Department of Education
Program Name: Special Education Cluster
Federal ID Numbers: 84.027 and 84.173

Criteria and Condition

The District failed to pass all four eligibility requirement for MOE. Districts are required to pass a minimum of one out of four possible eligibility tests that the Wisconsin Department of Public Instruction has established in order to be in compliance with the matching, level of effort and earmarking compliance requirement.

Cause

Decrease in the Districts special education staff and decrease in District paid insurance have greatly affected the actual expenditures of the program.

Effect

The District may be receiving funds for which it may not qualify.

Questioned Costs:

The District failed MOE Test #1 by \$110,851.

Recommendation

Periodic reviews of actual expenditures compared to budget as well as analysis of staff and enrollment projections to the program should be performed to ensure that maintenance of effort tests will be met.

District Response

The District will repay the questioned cost during the 2013-2014 school year.

Status

The District was in passed MOE for the year ended June 30, 2014.

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I. Summary of Auditors Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| A. Significant deficiencies identified not considered to be a material weakness? | Yes |
| B. Material weakness identified? | No |
| 3. Noncompliance material to financial statements? | Yes |

Federal Awards

- | | |
|---|------------|
| 4. Internal control over major programs: | |
| A. Significant deficiencies identified not considered to be a material weakness? | Yes |
| B. Material weakness identified? | No |
| 5. Type of auditor's report issued on compliance for major programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |
| 7. Identification of major programs: | |

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<u>Special Education Cluster</u>
84.027	IDEA Flow Through Entitlement and High Cost
84.173	IDEA Preschool Entitlement
	<u>Child Nutrition Cluster</u>
10.553	Food Service Aid - Breakfast
10.555	Food Service Aid - Lunch
10.555	Donated Commodities
84.282	ESEA V-B Charter Schools

- | | |
|--|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs | \$300,000 |
| 9. Auditee qualified as low-risk auditee? | No |

LODI SCHOOL DISTRICT
Lodi, Wisconsin

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

Section I. Summary of Auditors Results (Continued)

State Awards

10. Internal control over financial reporting:

A. Significant deficiencies identified not considered to be a material weakness? Yes

B. Material weakness identified? No

11. Type of auditor's report issued on compliance for major programs: Unmodified

12. Any audit findings disclosed that are required to be reported? Yes

13. Identification of major state programs:

<u>CFDA Number</u>	<u>Name of State Program or Cluster</u>
255.101	Special Education and School-Age Parents
255.201	Equalization Aid
255.945	Per Pupil Adjustment Aid

Section II. Financial Statement Findings

Finding 2014-001 Segregation of Duties

Condition and Criteria: The size of the District's administrative staff limits the duties that can be properly segregated.

Effect: The lack of segregation of duties could result in the possibility of undetected errors or irregularities.

Cause: Limitations in staff size.

Auditor's Recommendation: It is important for management to be aware of this condition and to realize that the concentration of duties and responsibilities in one or two individuals is not desirable from a control standpoint. Under these conditions, the most effective controls rest in management's knowledge and monitoring of matters relating to the District's financial affairs.

District's Response: The District will continue to use other controls, where practical to compensate for this limitation

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(Continued)

Section II. Financial Statement Findings (Continued)

Finding 2014-002 Financial Statement Preparation

Condition and Criteria: We were requested to prepare the financial statements and footnote disclosures for the District, because the District currently does not internally possess the expertise to prepare these statements and footnote disclosures in accordance with accounting principles generally accepted in the United States of America.

Effect: Condition could result in the possibility of undetected errors and irregularities.

Cause: Management and the accounting staff of the District have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and training limits their ability to prepare GAAP basis financial statements.

Auditor's recommendation: We recommend management continue using external sources to prepare the financial statements if cost of training is not feasible to the District.

District Response: The District will continue to rely on the expertise of an accounting firm to prepare the financial statements.

Finding 2014-003 Time and Effort Reporting

Department: United States Department of Education

Program Name: Special Education Cluster

Federal ID Numbers: 84.027 and 84.173

Condition and Criteria: Federal award guidelines state an employee who works, in whole or in part, on a federal program or cost objective must document their time and effort spent working on each federal program or cost objective. An employee who works solely on a single cost objective must furnish a semi-annual certification at least every six months that he/she has been engaged solely in activities that support the single cost objective. An employee who works on multiple activities or cost objectives must complete a personnel activity report which demonstrates the amount of actual time spent working on the federal grant objectives, on at least a monthly basis. The District did not have time and effort reporting completed for all but two employees at the time of the audit.

Effect: The District is not in compliance with the federal requirement requiring time and effort reporting for employees who work on Federal programs.

Cause: The District did not believe that time and effort reporting was required for employees worked solely on single cost objectives.

Questioned Costs: Our sample consisted of questioned costs in the amounts of:

- \$4,400 charged to 84.027
- \$11,517 charged to 84.173.

Recommendation: We recommend that the District establish procedures to ensure that time and effort reporting is completed in a timely manner for all employees working on a federal program.

District's Response: The business manager will meet with the special education director to discuss this finding and establish a procedure for determining that all appropriate staff members complete their time and effort documentation in a timely manner.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(Continued)

Section III. Federal and State Award Findings and Questioned Costs

See Finding 2014-003

Finding 2014-004 Unallowable Costs

Department: United States Department of Education

Program Name: Special Education Cluster

Federal ID Numbers: 84.027 and 84.173

Condition and Criteria: For a particular cost to be allowed for the IDEA program, it must be an excess cost of providing special education and related services. In addition, for a cost to be allowed, it must be necessary and reasonable for proper and efficient performance and administration of the grant. The District claimed costs for administering the Medicaid program to the IDEA grant. The costs for administering the Medicaid SBS program may not be charged to the IDEA grant, because they are not necessary for the performance of the IDEA grant

Cause: The District was unaware this was not allowable.

Effect: The Organization is not in compliance with requirement of allowable costs in relation to this program.

Questioned Costs: The District allocated Medicaid administration costs of \$3,099.

Recommendation: We recommend that the District review all costs charged to federal grants for allowability prior to filing for reimbursement.

District's Response: The District will review all payments out of the IDEA grant and re-allocate costs not associated with the federal grant.

Finding 2014-005 Special Education Transportation

Department: Wisconsin Department of Public Instruction

Program Name: Special education and School-Age

Federal ID Numbers: 255.101

Condition and Criteria: The District claimed special education pupil transportation costs for a bus route that included a student that did not have special education transportation in his/her IEP. The Department of Public Instruction requires that special education transportation routes claimed must contain only children with disabilities whose IEP states that child must have "special" transportation (cannot ride with regular education children).

Cause: The bus company was using an incorrect list of IEP students who ride the bus.

Effect: Special education pupil transportation was received for a bus route that included a student that was ineligible to ride the bus per his/her IEP.

Questioned costs: Undetermined

Recommendation: The District should review the list of riders for any routes charged to this program and ensure all riders have special education included as part of their IEP.

District Response: The District will review all files regarding students who have IEP transportation and correspond with the bus company to make sure the appropriate children are listed on the route sheets.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(Continued)

Section III. Federal and State Award Findings and Questioned Costs (continued)

Finding 2014-006 Special Education Open Enrollment

Department: Wisconsin Department of Public Instruction
Program Name: Special education and School-Age
Federal ID Numbers: 255.101

Condition and Criteria: The Department of Public (DPI) requires that special education open enrollment flat-rate tuition be recorded to fund 10. The District recorded this amount to fund 27 and did not reclassify it to fund 10 until after submitting its PI-1505/PI-1505-SE.

Cause: The District did not follow DPI requirements for recording special education open enrollment.

Effect: Special education open enrollment revenue was recorded in the incorrect fund.

Questioned costs: \$38,910

Recommendation: The District should review the DPI recording requirements for open enrollment in order to ensure correct recording in future years.

District Response: The District will review open enrollment recording instructions in order to correctly calculate which fund to record the revenues to in future years.

Finding 2014-007 Fixed Assets Tracking

Department: N/A
Program Name: N/A
CFDA #: N/A

Condition and Criteria: Federal award guidelines require that the District track assets purchased with federal funds to ensure that they are in compliance with equipment and real property management grant requirements. The District currently does not track assets that are purchased with federal grant dollars.

Effect: The District can not ensure that they are in compliance with the equipment and real property grant requirements.

Cause: The District is not tracking assets purchased with federal grant dollars.

Questioned Costs: N/A

Recommendation: We recommend that the District take an inventory of assets purchased with federal grant dollars and any future purchases to ensure that they are in compliance with the equipment and real property management grant requirements.

District's Response: All assets purchased with federal grant funds in the District are used according to the rules associated with the particular grant. In the future these assets will be tagged so their purpose and funding source is easily identifiable.

The District contact for all of the findings listed is Brent Richter; he can be contacted at 608-592-1052.

LODI SCHOOL DISTRICT

Lodi, Wisconsin

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

(Continued)

Section IV. Other Issues

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

2. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

 Department of Public Instruction Yes

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? Yes

4. Name and signature of partner _____
Carrie A Gindt

5. Date of Report December 03, 2014