

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**GLENCOE-SILVER LAKE PUBLIC SCHOOL
INDEPENDENT SCHOOL DISTRICT NO. 2859
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INTRODUCTORY SECTION

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2014**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Clark Christianson	December 31, 2014	Chairperson
Jamie Alsleben	December 31, 2016	Vice Chairperson
Kevin Kuester	December 31, 2016	Treasurer
Anne Twiss	December 31, 2014	Clerk
Donna VonBerge	December 31, 2016	Director
Jason Lindeman	December 31, 2014	Director

ADMINISTRATION

Christopher Sonju	Superintendent of Schools
Michelle Sander	Business Manager
Crystal Dahlke	Assistant Business Manger
District Offices:	Independent School District No. 2859 Glencoe-Silver Lake Public Schools 1621 E. 16 th Street Glencoe, MN 55336 (320) 864-2491

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859 as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparisons for the General Fund, Food Service Fund, Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 2859 as of and for the year ended June 30, 2013, and we expressed unmodified opinions on those audited financial statements in our report dated October 2, 2013. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

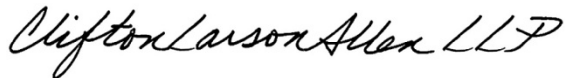
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2859's basic financial statements. The uniform financial accounting and reporting standards compliance table, as required by Minnesota Department of Education is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The uniform financial accounting and reporting standards compliance table, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 on our consideration of Independent School District No. 2859's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 2859's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of Glencoe-Silver Lake Public Schools – Independent School District No. 2859's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- The District has been able to maintain a positive fund balance.
- Enrollment decreased by 2.26% from 2013. Total ADM's were 1,597.
- The Net Position of the district increased .45% over the prior year by \$53,083.
- The fund balance in the general fund decreased to \$5,198,630 compared to \$5,759,817 at June 30, 2013.
- The ending fund balance is still above the fund balance policy set by the board.
- Restricted accounts having fund balances at June 30, 2014 included Deferred Maintenance, Health & Safety, and Operating Capital.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status of the Net Position of the District.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

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

District-Wide Statements

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

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

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* Net Position was \$11,898,098. This was a .45% increase from the prior year. (See Table A-1.)

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

	Governmental Activities		Percentage
	2014	2013	Change
Current and Other Assets	\$ 9,842,891	\$ 9,692,086	1.56%
Capital and Non-Current Assets	7,529,723	5,850,698	28.70%
Total Assets	17,372,614	15,542,784	11.77%
Current Liabilities	1,996,635	2,003,309	-0.33%
Long-Term Liabilities	1,752,767	418,102	319.22%
Total Liabilities	3,749,402	2,421,411	54.84%
Total Deferred Inflows of Resources	1,725,114	1,276,358	35.16%
Net Position			
Net Investment in Capital Assets	6,100,321	5,770,628	5.71%
Restricted	1,023,096	1,542,724	-33.68%
Unrestricted	4,774,681	4,531,663	5.36%
Total Net Position	\$ 11,898,098	\$ 11,845,015	0.45%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$18,986,167 for the year ended June 30, 2014. Property taxes and state formula aid accounted for 66% of total revenues for the year (see Figure A-1 on the next page). The remaining 34% came from other general revenues combined with investment earnings and program revenues.

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

	Governmental Activities for the Fiscal Year Ended June 30.		Total %
	2014	2013	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,297,157	\$ 1,371,890	-5.45%
Operating Grants and Contributions	4,390,259	3,904,392	12.44%
Capital Grants and Contributions	159,124	174,316	-8.72%
<u>General Revenues</u>			
Property Taxes	1,496,266	2,350,732	-36.35%
Unrestricted State Aid	11,119,510	10,287,192	8.09%
Investment Earnings	17,037	8,727	95.22%
Other	506,814	396,949	27.68%
Total Revenues	18,986,167	18,494,198	
Expenses			
Administration	843,506	828,164	1.85%
District Support Services	447,074	396,769	12.68%
Regular Instruction	8,078,520	8,295,867	-2.62%
Vocational Education Instruction	192,475	138,552	38.92%
Special Education Instruction	2,893,999	2,737,179	5.73%
Instructional Support Services	681,128	434,543	56.75%
Pupil Support Services	1,727,702	1,661,093	4.01%
Sites and Buildings	2,159,225	1,659,388	30.12%
Fiscal and Other Fixed Cost Programs	86,765	66,901	29.69%
Food Service	978,492	934,742	4.68%
Community Service	813,821	753,232	8.04%
Interest and Fiscal Charges on Long-Term			
Liabilities	30,377	18,524	63.99%
Total Expenses	18,933,084	17,924,954	5.62%
Increase in Net Position	53,083	569,244	
Beginning Net Position	11,845,015	11,275,771	
Ending Net Position	<u>\$ 11,898,098</u>	<u>\$ 11,845,015</u>	

The total cost of all programs and services was \$18,933,084. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position \$53,083 over last year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was \$18,933,084.

- Some of the cost was paid by the users of the District's programs (\$1,297,157).
- The federal and state governments subsidized certain programs with grants and contributions of \$4,549,383.
- Most of the District's costs \$13,086,544, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,496,266 in property taxes and \$11,119,510 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$523,851 related to investment earnings and other general revenues.

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

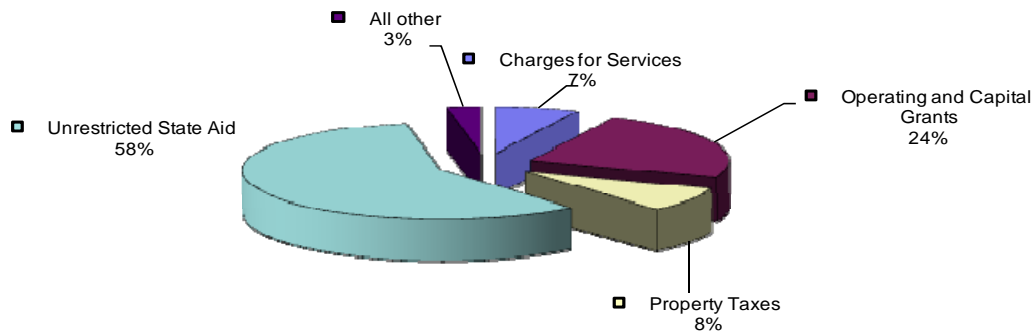
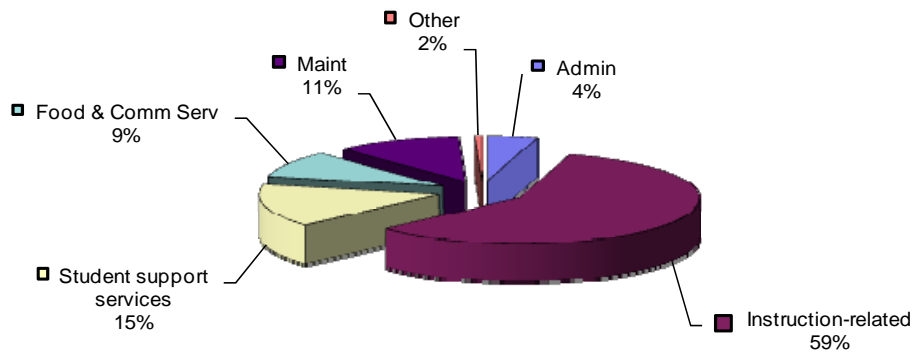


Figure A-2 District Expenses for Fiscal 2014



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Table A-3
Program Costs and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2014	2013		2014	2013	
Administration	\$ 843,506	\$ 828,164	1.85%	\$ 843,506	\$ 828,164	1.85%
District Support Services	447,074	396,769	12.68%	447,074	396,769	12.68%
Regular Instruction	8,078,520	8,295,867	-2.62%	6,077,493	6,107,089	-0.48%
Vocational Education Instruction	192,475	138,552	38.92%	176,084	138,552	27.09%
Special Education Instruction	2,893,999	2,737,179	5.73%	900,366	1,084,174	-16.95%
Instructional Support Services	681,128	434,543	56.75%	483,572	434,543	11.28%
Pupil Support Services	1,727,702	1,661,093	4.01%	1,672,158	1,579,819	5.84%
Sites and Buildings	2,159,225	1,659,388	30.12%	2,027,646	1,613,986	25.63%
Fiscal and Other Fixed Cost Programs	86,765	66,901	29.69%	86,765	66,901	29.69%
Food Service	978,492	934,742	4.68%	45,673	14,158	222.59%
Community Service	813,821	753,232	8.04%	295,830	191,677	54.34%
Interest and Fiscal Charges on Long-Term Liabilities	30,377	18,524	63.99%	30,377	18,524	63.99%
Total	\$ 18,933,084	\$ 17,924,954	5.62%	\$ 13,086,544	\$ 12,474,356	4.91%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$5,435,183, which is less than Glencoe-Silver Lake Public Schools' last year's ending fund balance of \$6,142,094, a decrease of \$706,911.

GENERAL FUND

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

The following graph shows the average daily membership for the last 7 years.

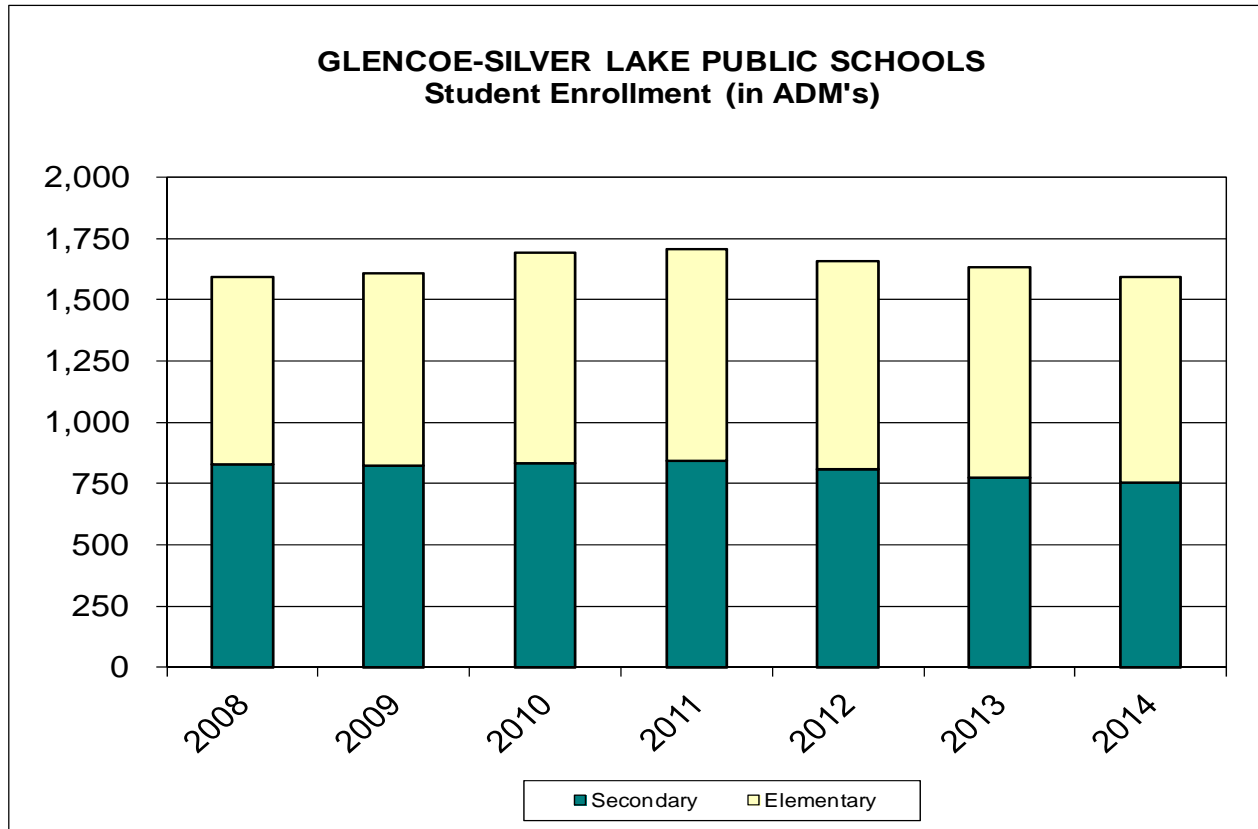
**Table A-4
Student Enrollment (Average Daily Membership)**

	2008	2009	2010	2011	2012	2013	2014
Pre-K & KH	22	30	32	30	32	25	22
Reg K	100	95	109	116	95	120	91
Elementary	640	658	718	718	724	714	727
Secondary	832	825	837	846	810	775	757
Total Students for Aid	1,594	1,608	1,696	1,710	1,661	1,634	1,597
Percent change	-3.48%	0.87%	5.46%	0.83%	-2.87%	-1.63%	-2.26%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

**Figure A-5
Student Enrollment (Average Daily Membership)**



The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2014	June 30, 2013	Increase (Decrease)	Percent
Local Sources				
Property Taxes	\$ 1,201,111	\$ 1,984,120	\$ (783,009)	-39.5%
Earnings on Investments	15,155	7,600	7,555	99.4%
Other	655,998	560,434	95,564	17.1%
State Sources	14,333,374	13,064,034	1,269,340	9.7%
Federal Sources	551,464	628,100	(76,636)	-12.2%
Total General Fund Revenue	<u>\$ 16,757,102</u>	<u>\$ 16,244,288</u>	<u>\$ 512,814</u>	3.2%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

Revenues from state and federal sources totaled \$14,884,838, a net increase of \$1,192,704. Total General Fund revenues increased by \$512,814, or 3.2%, from the previous year. Property tax revenue decreased by \$783,009 or 39.5% from the prior year. Some of the decrease is attributable to the decrease in property values, referendum market values and the decrease in student enrollment. The major difference is due to the pay back of the State Property Tax Shift and the accounting for that shift. Property tax decreased while state aid increased. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and equity aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenues.

The \$1,269,340 increase in state sources for fiscal 2014 is attributable to various areas of funding categories. The increase in other areas of general funding includes a Blue Cross insurance refund of \$125,612, special education aid increased by \$631,324 and third party billing revenue increased by \$78,435 over budget. The payback of the state tax shift also affected the general fund revenues. The increase in special education revenues correlates with the increases in special education expenses over the past few years.

The decrease in federal funds of \$76,636 is due to the restructuring of the Title programs.

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures
Year Ended**

	June 30, 2014	June 30, 2013	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 8,658,212	\$ 8,575,271	\$ 82,941	1.0%
Employee Benefits	2,570,115	2,470,675	99,440	4.0%
Purchased Services	3,919,898	3,610,263	309,635	8.6%
Supplies and Materials	737,594	822,195	(84,601)	-10.3%
Capital Expenditures	2,686,286	802,440	1,883,846	234.8%
Other Expenditures	294,383	158,550	135,833	85.7%
Total Expenditures	<u>\$ 18,866,488</u>	<u>\$ 16,439,394</u>	<u>\$ 2,427,094</u>	14.8%

Total General Fund expenditures increased by \$2,427,094 or 14.8% from the previous year.

Salaries and benefits fall in line with the contract settlements and the additional staff that were hired.

The increase in capital expenditures falls in line with the building construction projects that were completed between fiscal year 2013, 2014 and 2015. The Early Childhood Learning Center was 98% completed with \$118,829 remaining to be paid on the contract. The final payment will be made in FY15. The district also began the construction of a new tennis court complex. The contract for the tennis courts was \$693,500. \$221,090 had been paid out on the project at June 30, 2014. A balance of \$472,410 remains to be paid on the project and will be paid in FY15. The total fund balance of the General Fund decreased to \$5,198,630 at June 30, 2014 compared to \$5,759,817 at June 30, 2013.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

GENERAL FUND (CONTINUED)

The school board and administration have worked extremely hard in monitoring the budget and controlling the spending of the school district. The fund balance policy is reviewed annually by the Business Manager, Superintendent and school board. The fund balance policy clarifies to ensure the financial strength and stability of the District. The Board will endeavor to maintain a minimum of 20% of the District's General Fund operating budget, excluding those accounts associated within the Restricted category, in the combined total of the General Fund Committed, Assigned and Unassigned fund balances.

The fund balance policy was revised in May of 2011 to account for the GASB 54 requirements for Assigned, Committed, Nonspendable, Restricted and Unassigned Fund Balances.

The June 30, 2014 ending unassigned general fund balance of \$4,473,172 is at 23.7% of annual General Fund expenditures.

General Fund Budgetary Highlights

When budget changes are adopted by the Board they fall into one of the following categories:

- Adjusting for changes in pupil enrollment including revenue and potential staff additions.
- Adjustments for utility consumptions and costs or building repairs or maintenance.
- Implementing budgets for specially funded projects (Health and Safety), and projects which include both federal and state grants.
- Special Education
- Legislative Changes

During fiscal year 2014, General Fund revenues were under budgeted level by \$1,173,983. One of the biggest factors in this variance has to do with the Fund 10 Revenues that are crosswalked and included in the total general fund revenues, but no budget amounts are assigned to the fund 10 accounts. Additional State and Federal Special Education Aid was also received by the district. The expenditures exceeded budget by \$1,971,504 due to the construction projects, maintenance projects and additional special education costs.

OTHER MAJOR FUNDS

FOOD SERVICE FUND

The Food Service Fund experienced a decrease of \$42,731 leaving the fund balance at \$112,291. The 2013-2014 school year was the fifth year that the food service program was outsourced to Compass Group, Inc. through its Chartwell's Food Service Division. The 2013-2014 school year was the third year of a new three contract with Chartwell's. The district saw a decrease in meals served from previous years. The mandated changes from the United States Department of Agriculture had a direct impact in student participation in the lunch program. The menu changes that the district was required to make found some students choosing to bring a cold lunch or not eat. Decrease in enrollment affected the overall revenue received by the district and not being able to make effective changes to labor.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FOOD SERVICE FUND (CONTINUED)

Chartwell's has worked extremely well with the district to increase our food service offerings as well as provide a healthy menu that meets the dietary requirements and stay within the budget. The district continues to offer a free breakfast program to all K-12 students. The district also offered an after snack program at the high school, and that seemed to be extremely successful serving an average of 75 students per day. The district also qualified for a summer food service program based on the high percentage of free and reduced students. The program will run June, July and August, covering two fiscal years. The district was approved for a five year summer program with breakfast and lunch being offered at all three sites.

COMMUNITY SERVICE

The Community Service Fund fund balance decreased from \$196,520 at June 30, 2013 to \$124,262 at June 30, 2014. From the standpoint of maintaining current operating expenditures within the range of annual revenues, the Community Service Fund continues to operate on a sound financial basis. The Community Service Fund consists of Community Education, School Readiness, Early Childhood Family Education, Pre-School Screening and Non-Public Education. All of these programs are providing a service to varying levels of the community.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested \$7,529,723 in a broad range of capital assets, including school buildings, athletic facilities, vehicles; computer and audio-visual equipment (see Table A-7). Total depreciation expense for the year was \$440,460. The major increase in buildings was the addition of the Early Childhood Learning Center. Construction in progress was the payment for the tennis court complex.

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

	2014	2013	Percentage Change
Land	\$ 130,000	\$ 130,000	0.0%
Construction in Progress	221,090	129,864	100.0%
Land Improvements	359,463	359,463	0.0%
Buildings and Improvements	11,718,151	9,940,879	17.9%
Equipment	3,870,460	3,815,599	1.4%
Less: Accumulated Depreciation	(8,769,441)	(8,525,107)	2.9%
Total	\$ 7,529,723	\$ 5,850,698	28.7%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Long-Term Liabilities

At year end, the District had \$0 in general obligation bonds and \$118,076 capital leases, as shown in Table A-8. The district did incur a \$1,311,326 lease purchase agreement for the construction of the new early childhood addition. The District also had \$118,996 in severance benefits payable and \$352,677 in other post employment benefits payable at June 30, 2014. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.)

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

	2014	2013	Percentage Change
General Obligation Bonds	\$ -	\$ 525,000	-100.0%
Net Bond Premium and Discount	-	8,744	-100.0%
Loss on Refunding	-	(23,320)	-100.0%
Obligations Under Capital Leases	118,076	80,070	47.5%
Lease Purchase Agreement Payable	1,311,326	-	N/A
Other Post Employment Benefits Payable	352,677	299,435	17.8%
Severance Benefits Payable	118,996	100,720	18.1%
Total	\$ 1,901,075	\$ 990,649	91.9%
Long-Term Liabilities:			
Due Within One Year	\$ 148,308	\$ 572,547	
Due in More Than One Year	1,752,767	418,102	
	\$ 1,901,075	\$ 990,649	

The long-term liabilities included the debt service account, which recorded the activity for the McLeod West General Obligation Taxable Reorganizational Operating Debt Bonds. Prior to the consolidation with McLeod West, the McLeod West District sold bonds in the amount of \$2,585,000 to pay off their operational debt. These bonds are payable from fiscal year 2011 through fiscal year 2015. The tax obligation for this debt is only applied to the taxes paid by the former McLeod West District residents.

Under the guidance of the Minnesota Department of Education, in March of 2011 the school board adopted a Resolution Providing for the Partial Defeasance and Payment of Certain Maturities of the General Obligation Reorganizational Operating Debt Bonds. \$614,378 was used from the excess debt obligations to establish an Escrow Account with Northland Securities. The amount established in the escrow account will be used to eliminate the 2015 debt payment and reduce the levy obligation amount for Pay 2012 and Pay 2013. This resolution was adopted by the three school boards involved with the original consolidation process - GFW, Buffalo Lake Hector Stewart and the GSL school districts. The levy obligation by the three school districts ended with the Pay 2013 levy. No levy was extended to the tax payers with the Pay 2014. The remaining bond payment was paid with the excess debt obligations that were established in an Escrow account.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The 2014 Legislative Supplemental Budget Bill appropriated \$54 million for E12 education. Health insurance took center stage at the legislative session. The Health Insurance Transparency Act was passed which affects individual districts in different ways depending on their insurance carrier and coverage. The final bill requires districts to seek three bids for insurance every two years, unless agreed upon otherwise. Districts must seal their bids and open them in the presence of the largest bargaining unit. Districts retain the right to determine which insurance carrier to negotiate with and they can continue to negotiate with carriers after they open the initial proposals. The bill also includes exemptions for self-insured schools. The GSL district is considered self-insured as we are part of the Southwest West Central Service Cooperative. The Service Cooperative is responsible for obtaining the insurance quotes and negotiating the insurance coverage.
- Some of the other key points of the supplemental budget bill that could affect GSL include:
 - Basic Formula was increased by .5% (\$25) for FY15. This makes the formula allowance at \$5,831 per Pupil Unit after the adjustments for the new pupil weighting system.
 - Local Optional Revenue was extended to all school districts in the State. GSL was already receiving this revenue previously known as location equity revenue. GSL qualified for this revenue as part of the 2013 Legislative session.
 - The maximum number of years for students to qualify as an English Language Learner was increased from five to six years.
 - \$302 times the number of full-time equivalent teachers employed on October 1st of the previous year was awarded to non-Q comp districts only for one year only to assist in implementing the new mandated teacher evaluation system.
 - Fully funds reduced-price lunch. All reduced families qualify for free lunch. All Kindergarten students will receive a fully funded breakfast. GSL continues to offer free breakfast for all students, K-12.
 - Lease levy authority was increased by \$50.
 - Increased the minimum qualifying amount needed to trigger a review and comment for constructions projects from \$1.4 million to \$2 million. Also removes the need for a review and comment on most maintenance projects.
 - Appropriations were increased for School Readiness and Early Childhood Family Education.
- Some of the following 2013 Legislative changes are now in effect for the FY15 school year.
 - Effective with FY15, pupil weights for Pre-Kindergarten is .550, K through grade 6 will be at 1.0 and weights for grades 7-12 will be 1.2. Formula rates needed to be increased to offset the reduction in weighted student counts. Marginal cost pupil units were eliminated and replaced with the new declining enrollment revenue.
 - The General Education Revenue had to have a number of rate adjustments to neutralize the pupil accounting changes for FY2015. No new revenue was added even though the formulas changed.
 - Extended time allowance increased from \$4,601 to \$5,017
 - Gifted and Talented allowance increased from \$12 to \$13

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Operating Capital was adjusted from \$73 + \$100 x building age to \$79 + \$109 x building age index.
- Equity sliding scale increased from \$75 to \$80
- EL – (English Learners) student rate was adjusted from \$700 to \$704.
- Effective with FY 2015 (Pay 2014 Levy) a Uniform General Education Levy has been reinstated. It is now called a Student Achievement Levy and it is spread on the Net Tax Capacity for the district. The Operating Capital equalizing factor was increased to offset the Uniform General Education Levy. GSL will see \$41,091 for this category on the Pay 2014 levy documents. This will be revenue for the FY15 school year. The levy will proportionately reduce general education aid. This is an area that we will not want to under levy because it will affect state aids.
- Other funding areas include:
 - Career Technical Revenue –adds an equalizing factor for aid and levy
 - Safe Schools levy increased from \$30 to \$36 - \$4 is new revenue; \$2 is to adjust for pupil unit weighting changes.
 - New Special Education funding formula's that will be effective in FY 2016.
 - Special Education Tuition billings effective in FY 2015. The resident district is now responsible for 90% of the cost and the serving district will be responsible for 10% of the cost.
- A major overhaul was established regarding Operating Referendum Revenue's –
 - Converted from \$/Resident Marginal Cost Pupil Unit to \$/Adjusted Pupil Unit – APU.
 - Alternative attendance adjustment was eliminated/rolled into allowance per APU.
 - Allowance/APU was adjusted so that total revenue prior to caps is the same as under old law.
 - School Boards are allowed to convert up to \$300/APU from voter approved to board approved if board action is taken before September 30th of prior year so that is part of the proposed property tax statements.
 - Location Equity Revenue (LER) effective in FY 2015 (Pay 2014 levy). Districts with any land area in the 7 county metro area qualifies for \$424/APU. Or, districts that are not in the 7 county metro area but have greater than 2,000 adjusted ADM in the 3rd prior FY qualify for \$212 of location equity levy. The 2014 Legislation changed the Location Equity Revenue to Local Optional Revenue (LOR). All districts in the state now qualify for the full \$424 effective with the Pay 2015 levy, or revenue for the 2015-2016 fiscal year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The LER or LOR is deducted from operating referendum revenue. There is no action required by the school board if you accept the full amount of the location equity revenue. GSL qualified for the full \$424 with the Pay 2014 levy because of having property in Carver County which is part of the 7 county metro area. Districts may choose to levy for a lesser amount than the \$424.
- The district has begun the Pay 2015 levy process which is revenue for the 2015-2016 school year or FY 2016. The proposed levy authority is estimated to be a .09% increase of a total of \$1,775.86. Total preliminary levy authority is \$1,948,739.26 compared to \$1,946,963.40 for Pay 2014.
- The current funding of state aid IDEAS payments remains stable at 90/10%. The change back to the 90/10 was implemented in October of 2013 based on the financial status of the state budget. Law dictates that any state unrestricted fund balance as of June 30, 2013 must be directed first to school districts to pay back the borrowing that occurred from the State of Minnesota from school districts by reducing the payment percentage and to reduce the percentage of early levy recognition (tax shift).
- The Literacy Incentive Aid was a new aid category in FY 2013. GSL received \$89,455 in FY 2013 and received \$97,673 in FY 2014. The literacy incentive aid is calculated by using third grade enrollment to calculate proficiency aid and fourth grade enrollment to calculate growth aid. These dollars are not reserved or designated. The estimate for FY15 is \$93,500.
- Effective in FY2014, the reserve account limits and aid and levy penalties for Community Education, Early Childhood Family Education and School Readiness have been repealed.
- A change effective with the FY13 school year that will affect school districts is the elimination of the Homestead Market Value Credits which in turn decreased the Net Tax Capacity and the total Market Values of districts. The removal of the Homestead Credits changed the property values of the GSL district by 6.97%. In the past, districts levied the full amount of the levy authority. The state then gave homeowners a homestead market value credit. So, the amount of the credits was paid to districts by the State. By eliminating this credit it changes the amount of the tax rate that needs to be charged to homeowners to still be able to collect the full amount of the levies. This change does not affect referendum levies, but does affect all areas of the levy that are based on net tax capacity.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Minnesota school districts are paid based on pupil units served, a decline or increase in enrollment results in variable revenue that is received for operations. The district enrollment for 2013-2014 decreased by 2.26% at the end of the school year compared to the 2013 year end. Enrollment options continue to hurt the district. The district has a net loss of approximately 300 students. The district enrollment for the FY15 school year is stable compared to FY14. Beginning enrollment numbers for K-12 are at 1,597 compared to June 30th, 2014 of 1,597.
- The 2013-2014 school year was the fifth year of the consolidation with the former McLeod West School District. This has impacted the district in a number of ways. The district boundary lines were extended beyond the city of Brownton to the west. This extended our transportation requirement which increased expenses. The student enrollment increased slightly. By adding an additional community to the district, it also increased the total property valuation of the district. The GSL district now encompasses 6 communities which brings with it a much diversified school district. Those communities include; Glencoe, Silver Lake, Biscay, Plato, New Auburn and Brownton. The Pay 2013 levy was the last year that the taxes were levied to the former McLeod West property tax owners. The remaining debt owed will be paid by the Escrow Account that was established with excess funds available after the consolidation was completed. GSL has \$0 fund balance in Fund 07 (Debt Service) as there was no additional debt service established.
- The Administration and School Board continue to work on a plan for improving the school facilities. In December of 2012, the school board approved to move forward with building a 5,000 square foot Early Childhood Learning Center as an addition to the Lincoln Junior High Building. The Review and Comment Plan was submitted to the Minnesota Department of Education and final approval was received in June of 2013. The building houses the Early Childhood Special Education, (ECSE), the Early Childhood Family Education (ECFE) and the School Readiness (SR) programs. Along with office space, Director's office, Speech teacher office and a large motor room that could also be utilized as a classroom. Remodeling of the main level Lincoln restrooms and old kitchen area were included in the project plans. Total project costs are \$1,966,909. The board moved forward with a 10 year lease levy option for \$1,375,000 that will be spread to the tax payers over the 10 year period. The additional cost of the project was paid by district funds. The project was completed in January of 2014 and students and staff began using the facility at that time.
- Two elections were held in 2011. One in April and one in November asking the voters to approve an \$18 million dollar bond to build in between the High School and the Lincoln building, move K-3 to the new facility and close the Helen Baker building. The April election failed by 298 votes and the November election failed by 289 votes. The school board has held work sessions about the project to determine when another election should be held. The architects have reviewed the cost of the project and have now determined the project to be closer to \$25 million. Cost of building materials has increased substantially while interest costs have remained steady. At this point, the school board has not set an election for 2015 or beyond.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The November 2011 election results showed that the renewal of the operating referendum for \$727.36 per pupil unit was passed by the voters. There were 2,163 yes votes and 1,212 no votes. The passage of this operating referendum is for a period of 7 years. The renewal of the referendum was essential to maintain the current level of funding that we currently have. The successful election shows a positive statement of support from the taxpayers. With the new legislative changes from the 2013 legislative session, the impact to the votes could change dramatically when putting the question to the ballot when the referendum expires in 2020. Which would indicate an election would be held on 2019. The current operating referendum is for \$727.36 per pupil units. When all the conversions are completed, the new amount of the referendum is \$849.93. The location equity revenue then is subtracted from the \$849.93, so the new referendum amount is \$425.93. If the board moves forward with converting the \$300 of voter approved to board approved referendum, the amount of the referendum available is \$724.00 without seeking an election. At this point, there is no way to determine what the board needs will be in seven years or what additional legislative changes will be made that would affect referendum funding.
- Because of the positive fund balance in both unassigned general fund and operating capital a number of building and grounds projects have been completed. The facility committee has been active in addressing the deferred maintenance, health and safety and operating capital plans and outlining the projects to be completed. Having a positive fund balance again has proven to be a very positive reinforcement for the district, the staff and the community. Facility upgrades will continue to take place as long as the projects stay within our budget means. A number of technology upgrades have also been taking place. Computer labs have been upgraded along with additional interactive boards in more classrooms. Technology upgrades will continue to happen as 21st Century Learning continues to focus more and more towards up to date technology capabilities.
- During the summer of 2012, the field house gym floors in gym 1 and gym 2 were completely replaced with a wood performance floor at a cost of \$120,000. The field house was also completely painted. The board also approved the replacement of windows and doors on the Lincoln building and the north entrance doors and windows to the high school. The cost of this project was \$520,000.
- During the summer of 2013, additional projects were completed. In addition to the new Early Childhood Learning Center and remodeling that was started, an extension to the garage east of the high school was completed along with new cement and asphalt. A new track surface was installed at the Athletic Complex for \$124,900. Additional playing fields were added west of the Athletic Complex stadium at a cost of \$70,000. Integration of iPad's has taken place for grades 3-6 and all certified staff received iPad's in August of 2013. A tablet device is being added for the 7th and 8th graders in the fall of 2014.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- During the summer of 2014, a new tennis court complex was developed in the north athletic complex. The old 8 courts were demolished and 12 new courts were put in place at a cost of \$693,000.00. Along with the construction of the courts, lights were installed on the front three courts at a cost of \$61,000. This portion of the project will be funded through the Panther Association over a five year period. The district pursued a \$50,000 lease lighting agreement with the local Glencoe Light and Power similar to the agreement that had been worked out with the football field lights. The football field light lease was paid in full in August of 2014. The football field lights were re-lamped during the summer of 2014 as part of the original warranty. A partial repair and replacement was made to the Field House roof along with new asphalt surfacing in the Lincoln parking lot.
- During the 2011-2012 school year, the State of Minnesota had applied to the Federal Department of Education for a waiver for the NCLB. (No Child Left Behind Act). This waiver would allow Minnesota to establish changes to the way the AYP status is calculated and how the individual districts would address their testing status. The waiver was approved by the Federal Government. Minnesota has now implemented a new accountability system to provide a better, fairer way to measure how schools are doing. It will also allow the Minnesota Department of Education to partner with school districts, teachers and parents on finding solutions for schools that are identified in needing the most help. The system is called the Multiple Measurement Rating system or MMR. The MMR moves away from the previous measurement which was based only on proficiency. The new MMR looks at proficiency, student growth, achievement gap and graduation rates. Schools earn points in each category resulting in the final MMR score. There are three ratings that will identify schools. Priority Schools, Focus Schools and Reward Schools. Priority Schools are those schools that are consistently low-performing schools. These schools will be required to work with MDE to develop a school turnaround plan. Focus Schools are the schools with the largest achievement gaps. Focus Schools will need to develop a school improvement plan that directly addresses poor performances. Reward Schools will be identified on being in the top 15% of their grade classification group and will be recognized publicly for their good work. The Glencoe-Silver Schools was identified as a Focus School and was therefore required to put together a School Improvement Plan. This was similar to the AYP plan that was used in the past. GSL has shown substantial improvement in test scores for the 2013-2014 school year. The MMR score will not be released until October of 2015 so it is unknown at this time if GSL will remain a Focus school. Once a school is identified as a focus school, you keep that rating unless you come out of being a Focus School during the first year of your improvement plan and you immediately jump to a Celebration or Reward School.
- Because GSL is rated a Focus School, it has become an important factor driving the academic direction of the district. This has changed the focus of direction of administrators and teachers in evaluating detailed student data and test scores. The number of EL (English Learners) has continued to increase over the past few years school year. The poverty level which includes the number of students eligible for free and reduced lunches has increased to over 50% at our Helen Baker Elementary. Studies show that the higher the poverty level and the number of EL learners along with our high counts in special education, makes it harder for a district to close the Achievement Gap. The district has worked with the services of a literacy specialist in the elementary to work with teachers for the past two years. New math curriculum was purchased for grades K-4 with an iPad implementation at grades 3 and 4 in FY13. The iPad technology was implemented in grades 5 and 6 in FY14. Technology devices were extended to the 7th and 8th grades for FY15. Interactive white boards have now been placed in all elementary classrooms in both Helen Baker and Lakeside. By utilizing technology, increased staffing and a rigorous curriculum, it is hoped to see GSL improve to a Reward School.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Preliminary test score results for 2013-2014 shows that improvements have been made in the MCA testing at the Elementary level in math and reading, English Learners and Special Education. Overall reading score was 60.3% compared to 57.4% last year. State average was 59.1%. Overall math scores were 66.8% compared to 64.5% last year. State average was 61.4%. 7-12 grade scores showed to be almost at state average in proficiency.
- As of September 1, 2014, all employment contracts have been completed. Education Minnesota and Local 284 contracts will expire June 30th, 2015. Along with certain individual contracts. This will be the start of a new round of negotiations.
- The district continues to contract with the South West/West Central Service Cooperative – Region 4 for a number of services including finance, payroll, and student assistance (MARRS) and Special Education. The Coop also offers a Transition Program in Cosmos that our district is able to use for a limited number of students that require additional services when we are unable to meet their needs. This poses an additional transportation cost for the district but allows us to be in compliance with state and federal regulations regarding the individual learning plans for students. With all the changes in Special Education, including the state wide tuition billing, this continues to be a difficult area to monitor in the budget. The Coop continues to be a great resource for the district to be able to be a part of to assist in all of these areas of budget and financing.
- Glencoe-Silver Lake Public Schools is a very stable district with strong community support. The District provides a full range of public education services for Pre-school through grade 12. Food service and transportation are provided as supporting programs. The district's community education program includes early childhood, school readiness along with adult learning opportunities. The public school also provides some shared time services for the non-public schools in the district. There is currently a K-8 Lutheran School in Glencoe and a K-6 Catholic School in Glencoe. The Catholic School in Silver Lake was closed as of June 30, 2011. With the consolidation process complete, Glencoe-Silver Lake now serves the communities of Glencoe, Silver Lake, Plato, New Auburn, Biscay, and Brownton.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report contact the District Office, Independent School District No. 2859, 1621 East 16th Street, Glencoe, MN 55336.

BASIC FINANCIAL STATEMENTS

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Governmental Activities	
	2014	2013
ASSETS		
Cash and Investments	\$ 6,901,673	\$ 6,361,763
Cash Held by Trustee	21,810	-
Receivables		
Property Taxes	989,865	1,231,611
Other Governments	1,799,668	2,001,626
Other	79,216	59,962
Prepaid Items	411	3,540
Inventories	50,248	33,584
Capital Assets		
Land and Construction in Progress	351,090	259,864
Other Capital Assets, Net of Depreciation	7,178,633	5,590,834
Total Assets	<u>17,372,614</u>	<u>15,542,784</u>
LIABILITIES		
Salaries and Compensated Absences Payable	1,124,772	1,141,125
Accounts and Contracts Payable	689,070	253,841
Accrued Interest	22,791	17,747
Due to Other Governmental Units	241	55
Unearned Revenue	11,453	17,994
Long-Term Liabilities		
Portion Due Within One Year	148,308	572,547
Portion Due in More Than One Year	1,752,767	418,102
Total Liabilities	<u>3,749,402</u>	<u>2,421,411</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	1,725,114	1,276,358
Total Deferred Inflows of Resources	<u>1,725,114</u>	<u>1,276,358</u>
NET POSITION		
Net Investment in Capital Assets	6,100,321	5,770,628
Restricted for		
Operating Capital Purposes	676,612	1,106,946
State-Mandated Restrictions	106,917	79,860
Food Service	112,291	155,022
Community Service	127,276	200,896
Unrestricted	<u>4,774,681</u>	<u>4,531,663</u>
Total Net Position	<u><u>\$ 11,898,098</u></u>	<u><u>\$ 11,845,015</u></u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

2014

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 843,506	\$ -	\$ -
District Support Services	447,074	-	-
Regular Instruction	8,078,520	359,677	1,611,062
Vocational Education Instruction	192,475	-	16,391
Special Education Instruction	2,893,999	103,435	1,890,198
Instructional Support Services	681,128	-	197,556
Pupil Support Services	1,727,702	-	55,544
Sites and Buildings	2,159,225	2,743	-
Fiscal and Other Fixed Cost Programs	86,765	-	-
Food Service	978,492	437,830	494,989
Community Service	813,821	393,472	124,519
Interest and Fiscal Charges on Long-Term Liabilities	30,377	-	-
Total School District	<u>\$ 18,933,084</u>	<u>\$ 1,297,157</u>	<u>\$ 4,390,259</u>

General Revenues

Property Taxes Levied for
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Miscellaneous
 Total General Revenues

Change in Net Position
 Net Position - Beginning
 Net Position - Ending

See accompanying Notes to Basic Financial Statements.

		2013
	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (843,506)	\$ (828,164)
-	(447,074)	(396,769)
30,288	(6,077,493)	(6,107,089)
-	(176,084)	(138,552)
-	(900,366)	(1,084,174)
-	(483,572)	(434,543)
-	(1,672,158)	(1,579,819)
128,836	(2,027,646)	(1,613,986)
-	(86,765)	(66,901)
-	(45,673)	(14,158)
-	(295,830)	(191,677)
-	(30,377)	(18,524)
<u>\$ 159,124</u>	<u>(13,086,544)</u>	<u>(12,474,356)</u>

1,202,581	1,991,219
74,443	151,856
219,242	207,657
11,119,510	10,287,192
17,037	8,727
506,814	396,949
<u>13,139,627</u>	<u>13,043,600</u>
53,083	569,244
11,845,015	11,275,771
<u>\$ 11,898,098</u>	<u>\$ 11,845,015</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 5,792,220	\$ 114,968	\$ 188,639
Cash Held by Trustee	21,810	-	-
Receivables			
Current Property Taxes	856,413	-	82,240
Delinquent Property Taxes	48,198	-	3,014
Due from Minnesota Department of Education	1,673,430	-	10,703
Due from Federal through Minnesota Department of Education	115,535	-	-
Other Receivables	64,432	-	14,784
Prepaid Items	335	-	76
Inventory	6,099	44,149	-
Total Assets	<u>\$ 8,578,472</u>	<u>\$ 159,117</u>	<u>\$ 299,456</u>
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Salaries and Compensated Absences Payable	\$ 564,857	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	559,915	-	-
Accounts and Contracts Payable	646,253	35,373	7,444
Due to Other Governmental Units	241	-	-
Unearned Revenue	-	11,453	-
Total Liabilities	<u>1,771,266</u>	<u>46,826</u>	<u>7,444</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	1,560,378	-	164,736
Unavailable Revenue - Delinquent Property Taxes	48,198	-	3,014
Total Deferred flows of Resources	<u>1,608,576</u>	<u>-</u>	<u>167,750</u>
Fund Balance			
Nonspendable			
Prepaid Items	335	-	76
Inventory	6,099	44,149	-
Restricted for			
Deferred Maintenance	106,917	-	-
Health and Safety	(64,505)	-	-
Operating Capital	676,612	-	-
Safe Schools - Crime Levy	-	-	-
Community Education Programs	-	-	89,685
Early Childhood and Family Education Programs	-	-	4,344
School Readiness	-	-	16,831
Other Purposes	-	68,142	13,326
Assigned			
School Purposes	-	-	-
Unassigned	4,473,172	-	-
Total Fund Balance	<u>5,198,630</u>	<u>112,291</u>	<u>124,262</u>
Total Liabilities and Fund Balance	<u>\$ 8,578,472</u>	<u>\$ 159,117</u>	<u>\$ 299,456</u>

See accompanying Notes to Basic Financial Statements.

Funds		Total	
Debt Service		Governmental Funds	
		2014	2013
\$	-	\$ 6,095,827	\$ 5,557,310
	-	21,810	-
	-	938,653	1,148,503
	-	51,212	83,108
	-	1,684,133	1,944,150
	-	115,535	57,476
	-	79,216	59,962
	-	411	3,540
	-	50,248	33,584
\$	-	\$ 9,037,045	\$ 8,887,633
\$	-	\$ 564,857	\$ 580,870
	-	559,915	560,255
	-	689,070	253,841
	-	241	55
	-	11,453	17,994
	-	1,825,536	1,413,015
	-	1,725,114	1,276,358
	-	51,212	56,166
	-	1,776,326	1,332,524
	-	411	3,540
	-	50,248	33,584
	-	106,917	53,441
	-	(64,505)	(139,633)
	-	676,612	1,106,946
	-	-	26,419
	-	89,685	147,318
	-	4,344	9,362
	-	16,831	20,599
	-	81,468	177,019
	-	-	42,575
	-	4,473,172	4,660,924
	-	5,435,183	6,142,094
\$	-	\$ 9,037,045	\$ 8,887,633

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET POSITION GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2013)**

	<u>2014</u>	<u>2013</u>
Total Fund Balance for Governmental Funds	\$ 5,435,183	\$ 6,142,094
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	130,000	130,000
Construction in Progress	221,090	129,864
Land Improvements, Net of Accumulated Depreciation	249,898	267,651
Buildings and Improvements, Net of Accumulated Depreciation	5,837,613	4,255,142
Equipment, Net of Accumulated Depreciation	1,091,122	1,068,041
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue in the funds.		
	51,212	56,166
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(22,791)	(17,747)
Internal service funds are used by management to accumulate resources for payments of future other post employment benefits. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end are:		
	805,846	804,453
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	-	(525,000)
Unamortized Premiums	-	(8,744)
Deferred Loss on Refunding	-	23,320
Lease Purchase Payable	(1,311,326)	-
Obligations Under Capital Leases	(118,076)	(80,070)
Severance Benefits Payable	(118,996)	(100,720)
Other Post Employment Benefits Payable	(352,677)	(299,435)
Total Net Position of Governmental Activities	<u>\$ 11,898,098</u>	<u>\$ 11,845,015</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

		Major	
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 1,201,111	\$ -	\$ 75,805
Earnings on Investments	15,155	295	107
Other	655,998	437,828	446,927
State Sources	14,333,374	53,861	213,228
Federal Sources	551,464	441,128	-
Total Revenues	16,757,102	933,112	736,067
EXPENDITURES			
Current			
Administration	830,638	-	-
District Support Services	428,414	-	-
Regular Instruction	7,552,207	-	-
Vocational Education Instruction	186,770	-	-
Special Education Instruction	2,865,277	-	-
Instructional Support Services	572,564	-	-
Pupil Support Services	1,715,864	-	-
Sites and Buildings	1,774,692	-	-
Fiscal and Other Fixed Cost Programs	86,765	-	-
Food Service	-	968,889	-
Community Service	-	-	767,612
Capital Outlay	2,686,286	6,954	45,952
Debt Service			
Principal	149,101	-	1,862
Interest and Fiscal Charges	17,910	-	417
Total Expenditures	18,866,488	975,843	815,843
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,109,386)	(42,731)	(79,776)
OTHER FINANCING SOURCES (USES)			
Capital Lease Issuance	117,777	-	7,518
Sale of Equipment Proceeds	1,990	-	-
Judgments for School Districts	-	-	-
Lease-Purchase Agreement Proceeds	1,375,000	-	-
Transfers In	53,432	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	1,548,199	-	7,518
Net Change in Fund Balance	(561,187)	(42,731)	(72,258)
Fund Balance - Beginning	5,759,817	155,022	196,520
Fund Balance - Ending	\$ 5,198,630	\$ 112,291	\$ 124,262

See accompanying Notes to Basic Financial Statements.

Funds		Governmental	
Debt Service		Funds	
		2014	2013
\$	224,304	\$ 1,501,220	\$ 2,337,841
	87	15,644	7,901
	331,899	1,872,652	1,855,708
	7,157	14,607,620	13,238,742
	-	992,592	1,040,270
	563,447	18,989,728	18,480,462
	-	830,638	814,129
	-	428,414	382,335
	-	7,552,207	7,750,144
	-	186,770	133,958
	-	2,865,277	2,714,947
	-	572,564	577,260
	-	1,715,864	1,610,027
	-	1,774,692	1,530,550
	-	86,765	66,901
	-	968,889	924,666
	-	767,612	726,706
	-	2,739,192	820,309
	525,000	675,963	574,323
	15,750	34,077	31,910
	540,750	21,198,924	18,658,165
	22,697	(2,209,196)	(177,703)
	-	125,295	-
	-	1,990	-
	-	-	19
	-	1,375,000	-
	-	53,432	-
	(53,432)	(53,432)	-
	(53,432)	1,502,285	19
	(30,735)	(706,911)	(177,684)
	30,735	6,142,094	6,319,778
\$	-	\$ 5,435,183	\$ 6,142,094

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>2014</u>	<u>2013</u>
Net Change in Fund Balance-Total Governmental Funds	\$ (706,911)	\$ (177,684)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	2,141,277	668,628
Loss on Disposal of Capital Assets	(19,802)	-
Proceeds from sales of Capital Assets	(1,990)	-
Depreciation Expense	(440,460)	(412,195)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.

Other Financing Source - Capital Lease	(125,295)	-
Change in Accrued Interest Expense - Capital Leases	(2,198)	-
Principal Payments - Capital Leases	87,289	54,323

The governmental funds report bond and lease purchase agreement proceeds as financing sources, while repayment of principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect premiums when debt is first issued, whereas this amount is reported on the statement of net position and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Lease Purchase Agreement Proceeds	(1,375,000)	-
Amortization of Loss on Refunding	(23,320)	(12,166)
Repayment of Lease Purchase Payable	63,674	-
Repayment of Bond Principal	525,000	520,000
Change in Accrued Interest Expense - General Obligation Bonds	14,365	8,140
Change in Accrued Interest Expense - Lease Purchase Payable	(17,211)	-
Amortization of Bond Premium	8,744	5,246

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)**

	<u>2014</u>	<u>2013</u>
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are shown as a deferred inflow of resources in the funds.	\$ (4,954)	\$ 12,891
In the statement of activities, certain operating expenses - severance benefits and 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 (essentially, the amounts actually paid).	(71,518)	(98,765)
Internal service funds are used by the District to accumulate resources for payment of future other post employment benefits. The net revenue of the internal service funds is reported with governmental activities.	<u>1,393</u>	<u>826</u>
Change in Net Position of Governmental Activities	<u><u>\$ 53,083</u></u>	<u><u>\$ 569,244</u></u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources				
Property Taxes	\$ 1,931,988	\$ 1,897,519	\$ 1,201,111	\$ (696,408)
Earnings on Investments	6,500	6,500	15,155	8,655
Other	304,200	304,200	655,998	351,798
State Sources	12,808,802	12,963,476	14,333,374	1,369,898
Federal Sources	455,559	411,424	551,464	140,040
Total Revenues	<u>15,507,049</u>	<u>15,583,119</u>	<u>16,757,102</u>	<u>1,173,983</u>
EXPENDITURES				
Current				
Administration	899,683	899,021	830,638	(68,383)
District Support Services	447,965	420,265	428,414	8,149
Elementary and Secondary				
Regular Instruction	7,640,989	7,591,788	7,552,207	(39,581)
Vocational Education Instruction	126,072	143,071	186,770	43,699
Special Education Instruction	2,615,267	2,776,409	2,865,277	88,868
Instructional Support Services	520,302	547,876	572,564	24,688
Pupil Support Services	1,706,350	1,791,285	1,715,864	(75,421)
Sites and Buildings	1,584,723	1,569,223	1,774,692	205,469
Fiscal and Other Fixed Cost Programs	119,100	136,323	86,765	(49,558)
Capital Outlay	809,950	1,008,350	2,686,286	1,677,936
Debt Service				
Principal	10,873	10,873	149,101	138,228
Interest and Fiscal Charges	500	500	17,910	17,410
Total Expenditures	<u>16,481,774</u>	<u>16,894,984</u>	<u>18,866,488</u>	<u>1,971,504</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(974,725)	(1,311,865)	(2,109,386)	(797,521)
OTHER FINANCING SOURCES				
Capital Lease Proceeds	-	-	117,777	117,777
Sale of Equipment Proceeds	-	-	1,990	1,990
Lease-Purchase Agreement Proceeds	-	-	1,375,000	1,375,000
Transfers In	-	-	53,432	53,432
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,548,199</u>	<u>1,548,199</u>
Net Change in Fund Balance	<u>\$ (974,725)</u>	<u>\$ (1,311,865)</u>	<u>(561,187)</u>	<u>\$ 750,678</u>
FUND BALANCE				
Beginning of Year			<u>5,759,817</u>	
End of Year			<u>\$ 5,198,630</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Under)</u>
				<u>Final</u>
				<u>Budget</u>
REVENUES				
Local Sources				
Earnings on Investments	\$ -	\$ -	\$ 295	\$ 295
Other - Primarily Meal Sales	482,099	473,691	437,828	(35,863)
State Sources	51,472	51,472	53,861	2,389
Federal Sources	429,435	429,435	441,128	11,693
Total Revenues	<u>963,006</u>	<u>954,598</u>	<u>933,112</u>	<u>(21,486)</u>
EXPENDITURES				
Current				
Food Service	960,825	960,825	968,889	8,064
Capital Outlay	<u>1,500</u>	<u>1,500</u>	<u>6,954</u>	<u>5,454</u>
Total Expenditures	<u>962,325</u>	<u>962,325</u>	<u>975,843</u>	<u>13,518</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ 681</u>	<u>\$ (7,727)</u>	(42,731)	<u>\$ (35,004)</u>
FUND BALANCE				
Beginning of Year			<u>155,022</u>	
End of Year			<u>\$ 112,291</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
JUNE 30, 2014**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources				
Property Taxes	\$ 163,400	\$ 153,697	\$ 75,805	\$ (77,892)
Earnings on Investments	-	-	107	107
Other - Primarily Tuition and Fees	431,985	431,985	446,927	14,942
State Sources	110,733	107,043	213,228	106,185
Federal Sources	300	300	-	(300)
Total Revenues	<u>706,418</u>	<u>693,025</u>	<u>736,067</u>	<u>43,042</u>
EXPENDITURES				
Current				
Community Service	740,785	747,448	767,612	20,164
Capital Outlay	34,450	34,450	45,952	11,502
Debt Service				
Principal	-	-	1,862	1,862
Interest	-	-	417	417
Total Expenditures	<u>775,235</u>	<u>781,898</u>	<u>815,843</u>	<u>33,945</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(68,817)	(88,873)	(79,776)	9,097
OTHER FINANCING SOURCES				
Capital Lease Issuance	-	-	7,518	7,518
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>7,518</u>	<u>7,518</u>
Net Change in Fund Balance	<u>\$ (68,817)</u>	<u>\$ (88,873)</u>	(72,258)	<u>\$ 16,615</u>
FUND BALANCE				
Beginning of Year			<u>196,520</u>	
End of Year			<u>\$ 124,262</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

	Governmental Activities - Internal Service Funds <u>2014</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 805,846
Total Assets	<u>\$ 805,846</u>
NET POSITION	
Unrestricted	\$ 805,846
Total Net Position	<u>\$ 805,846</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Funds <u>2014</u>
NONOPERATING INCOME	
Earnings on Investments	\$ 1,393
Total Nonoperating Income	<u>1,393</u>
Change in Net Position	1,393
Total Net Position - Beginning	804,453
Total Net Position - Ending	<u>\$ 805,846</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Funds
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	\$ 1,393
Net Cash Provided by Investing Activities	<hr/> 1,393 <hr/>
Net Increase in Cash and Cash Equivalents	1,393
Cash and Cash Equivalents - Beginning	<hr/> 804,453
Cash and Cash Equivalents - Ending	<hr/> \$ 805,846 <hr/> <hr/>
Displayed on Statement of Net Position as:	
Cash and Investments	<hr/> \$ 805,846 <hr/> <hr/>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	Private- Purpose Trust
	<hr/>
ASSETS	
Cash and Investments	\$ 965,005
Total Assets	<u>\$ 965,005</u>
NET POSITION	
Restricted for Scholarships	\$ 965,005
Total Net Position	<u>\$ 965,005</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

	Private- Purpose Trust
	<hr/>
ADDITIONS	
Gifts and Donations	\$ 2,700
Earnings on Investments	1,466
Total Additions	<hr/> 4,166
DEDUCTIONS	
Scholarships Awarded	14,085
Total Deductions	<hr/> 14,085
Change in Net Position	(9,919)
Net Position - Beginning of Year	<hr/> 974,924
Net Position - End of Year	<u>\$ 965,005</u>

See accompanying Notes to Basic Financial Statements.

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2859 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 2859 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

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

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

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

C. Basic Financial Statement Presentation

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

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

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal users of internal service fund are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for accumulating resources for future payments of other post employment benefits. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus and Basis of Accounting

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

Description of Funds

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

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Major Governmental Funds (Continued)

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligations bond principal, interest and related costs associated with the McLeod West debt issue.

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accumulates resources for the future payment of other post employment benefits.

Fiduciary Fund

Private Purpose Trust Fund

The Private Purpose Trust Fund is used to account for money held by the District in the capacity of trustee or custodian, where both the principal and interest may be spent.

E. Budgeting

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

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

F. Cash and Investments

Cash balances consist of interest bearing accounts, deposits in the Minnesota Trust Investment Shares Portfolio and certificates of deposit. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Cash Held by Trustee

Cash held by trustee consist of an interest bearing account held for the purpose of financing the construction of the new Early Childhood Center and purchasing necessary equipment, appurtenances and site improvements on the land.

H. Accounts Receivable

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

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of wood shop supplies and paper in the General Fund and purchased food, supplies, and surplus commodities received from the federal government within the Food Service Fund. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes

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

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

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy, which is frozen at \$168,353 for the District. Starting in fiscal year 2011, the tax shift was expanded to include all other general and community service fund levies. State aids were then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. In fiscal year 2014, the tax shift was reduced to only include the 2000 pay 2001 operating levy. State aids were increased by this reduction in the shift, making it revenue neutral. Certain other portions of the District's 2013 pay 2014 levy, normally revenue for the 2014-15 fiscal year, are also advance recognized at June 30, 2014, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2014, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

M. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Accrued Employee Benefits

Vacation Pay

Since vacation pay does not vest to employees, no long-term portion of vacation liabilities are recorded in the financial statements.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits (Continued)

Severance and Health Benefits

Severance consist of lump sum early retirement incentive payments. Accounting policies for severance benefits are described below.

a. Early Retirement Incentive and Convertible Sick Leave

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

Full-time employees, other than teachers, who have completed at least 15 years of continuous service with the District and who are at least 55 years of age are eligible for severance pay. Eligible employees, upon early retirement, receive as severance pay, an amount representing 66% of their unused accumulation of sick leave days.

During fiscal year 2014, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$0. At June 30, 2014, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

b. Other Postemployment Benefits Payable

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay \$150 per month or \$250 per month toward the premium cost of the individual health insurance for 96 months. The employee pays the difference toward the full premium for any coverage elected. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

O. Deferred Inflows of Resources

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

P. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for the school lunch deposits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance

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

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

The District has a minimum fund balance policy, which identifies a minimum total of committed, assigned and unassigned fund balance in the General Fund as 20% of the District's operating budgeted expenditures.

R. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers demand deposit accounts and investments to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

S. Risk Management

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

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

T. Net Position

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Summarized Comparative Information

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

	Budget	Expenditures	Excess
General Fund	\$ 16,894,984	\$ 18,866,488	\$ 1,971,504
Special Revenue Funds			
Food Service Fund	962,325	975,843	13,518
Community Service Fund	781,898	815,843	33,945

B. Interfund Transfers

The District had the following interfund transfer at June 30, 2014:

Transfers In:	Transfer Out:
General Fund	Debt Service Fund
	<u>\$ 53,432</u>

The purpose of the transfer from the Debt Service Fund to the General Fund was to close out the excess fund balance sitting in the Debt Service Fund.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

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

External Investment Pools –

	<u>Amortized Cost</u>
MN Trust Investment Shares Portfolio	\$ 3,612,236

The MN Trust Investment Shares Portfolio is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2a-7. The fair value of the position in the pool is the same as the value of the pool shares.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Other Investments –

	<u>Fair Value</u>
Negotiable Certificates of Deposit	\$ 2,237,782

The negotiable certificates of deposit are held by PMA Financial Network as temporary investments of the District's available cash.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from the maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>
Negotiable Certificates of Deposit	\$ 2,237,782	\$ 1,740,158	\$ 497,624
MN Trust Investments Shares Portfolio	3,612,236	3,612,236	-
	<u>\$ 5,850,018</u>	<u>\$ 5,352,394</u>	<u>\$ 497,624</u>

Custodial Credit Risk

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that insurance of all balances held with each investment account. As of June 30, 2014, the investment balances were fully covered by insurance for each brokerage firm.

Credit Risk

Generally, Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District's investments as rated by Moody's.

<u>Type</u>	<u>Credit Quality Risk</u>
Negotiable Certificates of Deposit	N/A
MN Trust Investments Shares Portfolio	AAA

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk

The District places no limit on the amount that may be invested with any one issuer or depository. The District did not hold any investments which individually comprise more than five percent of the District's total investments.

C. Balance Sheet Presentation

The deposits and investments are presented in the basic financial statements as follows:

Deposits	\$ 2,037,992
Negotiable Certificates of Deposit	2,237,782
MN Trust Investments Shares Portfolio	3,612,236
Cash on Hand	478
Total Pooled Cash and Investments	<u>\$ 7,888,488</u>
 Cash and Investments - Statement of Net Position	 \$ 6,901,673
Cash and Investments Held by Trustee - Statement of Net Assets	21,810
Cash and Investments - Statement of Fiduciary Net Position	965,005
Total Cash and Investments	<u>\$ 7,888,488</u>

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in Progress	129,864	221,090	(129,864)	221,090
Total Capital Assets, Not Being Depreciated	259,864	221,090	(129,864)	351,090
Capital Assets, Being Depreciated				
Land Improvements	359,463	-	-	359,463
Buildings and Improvements	9,940,879	1,777,272	-	11,718,151
Equipment	3,815,599	272,779	(217,918)	3,870,460
Total Capital Assets, Being Depreciated	14,115,941	2,050,051	(217,918)	15,948,074
Accumulated Depreciation for				
Land Improvements	(91,812)	(17,753)	-	(109,565)
Buildings and Improvements	(5,685,737)	(194,801)	-	(5,880,538)
Equipment	(2,747,558)	(227,906)	196,126	(2,779,338)
Total Accumulated Depreciation	(8,525,107)	(440,460)	196,126	(8,769,441)
Total Capital Assets, Being Depreciated, Net	5,590,834	1,609,591	(21,792)	7,178,633
Governmental Activities Capital Assets, Net	<u>\$ 5,850,698</u>	<u>\$ 1,830,681</u>	<u>\$ (151,656)</u>	<u>\$ 7,529,723</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

Administration	\$ 13,427
Elementary and Secondary Regular Instruction	328,720
Special Education Instruction	1,449
Instructional Support Services	41,386
Pupil Support Services	17,155
Sites and Buildings	22,481
Food Service	9,088
Community Service	6,754
Total Depreciation Expense, Governmental Activities	<u>\$ 440,460</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2014:

	Principal Outstanding	
	Due Within One Year	Total
Lease Purchase Payable	\$ 120,427	\$ 1,311,326
Capital Leases Payable	27,881	118,076
Other Postemployment Benefits Payable	-	352,677
Severance Benefits Payable	-	118,996
	<u>\$ 148,308</u>	<u>\$ 1,901,075</u>

B. Future Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including capital leases, compensated absences payable, other postemployment benefits payable, and severance benefits payable are as follows:

Year Ending June 30,	Lease Purchase Payable	
	Principal	Interest
2015	\$ 120,427	\$ 40,366
2016	124,250	36,543
2017	128,195	32,598
2018	132,265	28,528
2019	136,464	24,329
2020 - 2024	669,725	53,838
	<u>\$ 1,311,326</u>	<u>\$ 216,202</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation Taxable Reorganization Bonds

On July 1, 2009, the District acquired debt of \$2,585,000 of General Obligation Taxable Reorganization Bonds. The bonds were issued on June 1, 2009 by McLeod West to help fund the reorganization of the District. Payments of the debt will be made by Glencoe-Silver Lake Public Schools, Gibbon-Fairfax-Winthrop Public Schools and Buffalo Lake-Hector Public schools.

On April 1, 2011, the District placed the unexpended proceeds of the General Obligation Taxable Reorganization Bonds in an irrevocable escrow account. The account is to be used to pay \$10,000 in principal of the 2014 and all of bonds maturing in 2015, which is \$550,000, related to the General Obligation Taxable Reorganization Bonds. This transaction resulted in an in substance defeasance, and accordingly the escrow account and related debt are not reported in the District's financial statements. This resulted in a loss on refunding of \$47,652. The District's remaining portion of this debt has been paid.

Lease Purchase Payable

On September 12, 2013, the District entered into a lease-purchase agreement for \$1,375,000. The debt was issued to help fund the construction of the new Early Childhood Center, along with necessary equipment and other site improvements. The district will use General Fund levy in future years to pay for the debt payments.

Capital Leases Payable

Capital leases are utilized by the District as a means to finance the Facility projects that are too small for issuing bonds and too large for the operating capital funds to cover the costs. These projects over the years have included modifications to the fieldhouse, equipment for the fieldhouse, technology throughout the district, stadium lights, and improvements to the Helen Baker Elementary. Total cost of assets held under capital leases is \$237,691. Related accumulated depreciation of assets under capital leases at June 30, 2014 is \$112,396.

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

Year Ending June 30,	
2015	\$ 38,602
2016	31,218
2017	31,218
2018	31,218
2019	15,609
Total Minimum Lease Payments	147,865
Less Amounts Representing Interest	29,789
Present Value of Net Minimum Lease Payments	<u>\$ 118,076</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Severance Benefits Payable

Severance benefits payable consist of convertible sick leave payable to employees upon retirement. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

D. Changes in Long-Term Liabilities

	June 30, 2013	Additions	Retirements	June 30, 2014
Bonds Payable	\$ 525,000	\$ -	\$ 525,000	\$ -
Bond Premium	8,744	-	8,744	-
Loss on Refunding	(23,320)	-	(23,320)	-
Lease Purchase Obligations	80,070	125,295	87,289	118,076
Lease Purchase Payable	-	1,375,000	63,674	1,311,326
Other Postemployment Benefits Payable	299,435	167,658	114,416	352,677
Severance Benefits Payable	100,720	18,276	-	118,996
	<u>\$ 990,649</u>	<u>\$ 1,686,229</u>	<u>\$ 775,803</u>	<u>\$ 1,901,075</u>

NOTE 6 RESTRICTED/ASSIGNED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The assigned fund balances are resources constrained with the intent to be used for a specific purpose. The following is a summary of the restricted and assigned fund balances for the governmental funds:

A. Restricted for Deferred Maintenance

This fund balance restriction represents accumulated resources available to provide maintenance on buildings with funding made available for that purpose.

B. Restricted for Health and Safety

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 RESTRICTED/ASSIGNED FUND BALANCES (CONTINUED)

C. Restricted for Operating Capital

Restricted for operating capital represents available resources to be used only for operating capital purposes, including but not limited to the purchase, lease, repair and improvement of school buildings, and the purchase or lease of computers, vehicles, textbooks, and telecommunications equipment.

D. Restricted for Safe Schools – Crime Levy

The fund balance restriction represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

E. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

F. Restricted for Early Childhood and Family Education Programs

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

G. Restricted for School Readiness

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

H. Restricted for Other Purposes

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

I. Assigned for School Purposes

The fund balance is assignment represents accumulated resources for the McLeod West unemployment.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 PENSION PLANS

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

A. Teachers Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St Paul MN 55103-1855 or by calling (651) 296-6449 or (800) 657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.50%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 7.0% for Coordinated Plan members and 10.0% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$475,170, \$442,929 and \$402,218, respectively, equal to the required contributions for each year as set by state statute.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA)

1. Plan Description

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

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

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

2. Funding Policy

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

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013, and 2012, were \$140,186, \$125,790 and \$124,611, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2014, 2013 and 2012 are \$115,286, \$111,511 and \$111,168, respectively. The related employee contributions were \$220,447, \$223,831 and \$223,629 for the years ended June 30, 2014, 2013 and 2012, respectively.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 195 active participants and 21 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes \$150 per month or \$250 per month, with 25 years of service and 34 years of teaching, of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2014, the District contributed \$114,416 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 172,747
Interest on Net OPEB Obligation	13,475
Adjustment to Annual Required Contribution	(18,564)
Annual OPEB Cost (Expense)	<u>167,658</u>
Contributions Made	<u>(114,416)</u>
Increase in Net OPEB Obligation	53,242
Net OPEB Obligation - Beginning of Year	<u>299,435</u>
Net OPEB Obligation - End of Year	<u><u>\$ 352,677</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 167,658	68.2%	\$ 352,677
6/30/2013	\$ 168,992	57.1%	\$ 299,435
6/30/2012	\$ 141,824	53.9%	\$ 226,957

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,496,460. The annual payroll for active employees covered by the plan in the actuarial valuation was \$8,048,236 for a ratio of UAAL to covered payroll of 18.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.0%, reduced by decrements to an ultimate rate of 5% over six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2014 does not exceed 30 years.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 JOINTLY GOVERNED ORGANIZATION

Independent School District No. 2859 is a member of the Little Crow Special Education Cooperative. The Little Crow Special Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by 13 separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources.

REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$ -	\$ 1,496,460	\$ 1,496,460	0.0%	\$ 8,048,236	18.6%
7/1/2010	\$ -	\$ 1,234,921	\$ 1,234,921	0.0%	\$ 7,306,964	16.9%
7/1/2007	\$ -	\$ 1,349,866	\$ 1,349,866	0.0%	\$ 6,249,711	21.6%

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Independent School District No. 2859's basic financial statements, and have issued our report thereon dated September 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2859's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 2859's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2859's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as 2014-001 through 2014-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2859's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District No. 2859's Response to Finding

Independent School District No. 2859's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 2859's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

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

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 2859's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 2859's major federal programs for the year ended June 30, 2014. Independent School District No. 2859's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 2859's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 2859's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 2859's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 2859 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Independent School District No. 2859's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2859's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2859's internal control over compliance.

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

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

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



CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Grantor/Program	CFDA Number	Agency or Pass-Through Number		Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Minnesota Department of				
Non-Cash Assistance (Commodities):				
National School Lunch Program	# 10.555	1-2589-000	\$ 46,042	
Total Non-Cash Assistance				\$ 46,042
Cash Assistance:				
School Breakfast Program	# 10.553	1-2589-000	86,078	
National School Lunch Program	# 10.555	1-2589-000	297,119	
National School Lunch Program - Commodity Cash Rebate	# 10.555	1-2589-000	6,830	
After School Snack Program	# 10.555	1-2589-000	4,221	
Special Milk Program for Children	# 10.556	1-2589-000	838	
Total Cash Assistance				395,086
Total US Department of Agriculture				441,128
U.S. Department of Education				
Pass-Through Minnesota Department of Education				
Cash Assistance:				
Title I, Part A	84.010	@	164,204	
Title I, Part C - Migrant Education - Summer	84.011	@	94,348	
Title II, Part A - Improving Teacher Quality	84.367	@	89,341	
Title III - English Language Acq Grants	84.365	@	14,574	
Pass-Through SW/WC Service Cooperative #991				
Cash Assistance:				
Special Education - Grants to States	& 84.027	@	181,788	
Special Education - Preschool Incentive	& 84.173	@	7,209	
Total Cash Assistance, US Department of Education				551,464
Total Federal Financial Assistance Expended				\$ 992,592
<div style="margin-top: 20px;"> # - Child Nutrition Cluster & - Special Education Cluster @ - Unknown Agency or Pass-Through Number </div>				

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 2859. The reporting entity is defined in Note 1 to the financial statements.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Independent School District No. 2859's financial statements.

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859, as of June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated September 15, 2014

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 2859 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 2859's noncompliance with the above-referenced provisions.

Independent School District No. 2859's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 2859's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

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**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

PART I: SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Independent School District No. 2859.
2. Four deficiencies in internal control over financial reporting were disclosed by the audit of the basic financial statements. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Independent School District No. 2859 were disclosed during the audit.
4. No deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 2859 expresses an unmodified opinion.
6. The audit disclosed no findings that would be required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
7. The following programs were tested as major programs:

 U.S. Department of Agriculture:

 Child Nutrition Cluster:

 School Breakfast Program

CFDA #10.553

 National School Lunch Program

CFDA #10.555

 Special Milk Program for Children

CFDA #10.556

 After School Snack Program

CFDA #10.555

 U.S. Department of Education:

 Title I, Part A

CFDA #84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 2859 was not determined to be a low-risk auditee.

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

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

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

Criteria: The District must be able to prevent or detect the omission of a material disclosure in the annual financial statements.

Questioned Costs: None

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

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

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to have the auditor prepare the financial statements, however, the District has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2014.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:
(CONTINUED)**

FINDING: 2014-002 MATERIAL AUDIT ADJUSTMENTS

Condition: The District made journal entries to adjust accounts to year end balances. However, the audit firm identified certain misstatements and proposed entries to correct them. Management reviewed the journal entries and posted them to its general ledger.

Criteria: The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.

Questioned Costs: None

Context: The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.

Effect: The potential exists that the financial statements could be materially misstated and not be prevented or detected by the District's controls.

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).

Recommendation: The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will review the prior year journal entries to determine training needs with the intent to complete all journal entries necessary to adjust accounts to their appropriate year end balances.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2014.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:
(CONTINUED)**

Finding: 2014-003 ACCOUNT CODING ERRORS

Condition: The Minnesota Department of Education requires school districts to follow the Uniform Financial Accounting and Reporting System (UFARS) when coding all financial activity. There was one invoice discovered through our procedures to evaluate internal controls that had incorrect account coding.

Criteria: The District should have controls in place to prevent, or detect and correct, incorrect UFARS account coding.

Questioned Costs: None

Context: The District's controls are not adequate to ensure all transactions are coded appropriately.

Effect: The potential exists for the financial statements to have a material misstatement, due to incorrect account coding that would not be prevented, or detected and corrected, by the District's internal controls.

Cause: The District's controls are not adequate to ensure all transactions are coded appropriately.

Recommendation: We recommend the District review all codes for appropriate account coding.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District has corrected the account coding for this disbursement. The District will review all codes for appropriate account coding

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:
(CONTINUED)**

Finding: 2014-004 BANK RECONCILIATION DID NOT AGREE TO THE CLIENT RECORDS

Condition: The District should be reconciling the bank balances to the trial balance every month. Bank Reconciliations should be reviewed and approved on a monthly basis. Through our audit of cash, the bank reconciliation did not reconcile the district's cash balances.

Criteria: The District should be reconciling their bank balances to their book balances on a monthly basis. The District should also have controls in place to prevent, or detect and correct, differences between the bank reconciliation and the district's records.

Questioned Costs: None

Context: The District's controls are not adequate to ensure cash is reconciled.

Effect: The potential exists for the financial statements to have a material misstatement, due to the bank reconciliation not being reconciled that would not be prevented, or detected and corrected, by the District's internal controls.

Cause: The District's controls are not adequate to ensure cash is reconciled correctly.

Recommendation: We recommend the District completes a detailed review of the bank reconciliation each month.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District has corrected the bank reconciliation as of June 30, 2014. The District will perform a detailed review of the monthly bank reconciliations.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None noted

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None noted

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2013-004	Internal Control and Compliance Over Time and Effort	Corrected	

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2014**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenue	\$ 16,757,102	\$ 16,757,103	\$ (1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 18,866,488	\$ 18,866,484	\$ 4	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Nonspendable:			
460 Nonspendable	\$ 6,434	\$ 6,434	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted			
403 Staff Development	\$ -	\$ -	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 106,917	\$ 106,917	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health and Safety	\$ (64,505)	\$ (64,505)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	Unassigned			
411 Severance Pay	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
419 Encumbrances	\$ -	\$ -	\$ -	Total Revenue	\$ 563,447	\$ 563,446	\$ 1
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 540,750	\$ 540,750	\$ -
424 Operating Capital	\$ 676,612	\$ 676,612	\$ -	Restricted			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
428 Learning and Development	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	Unassigned:			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -				
438 Grad Standards Gifted & Talented	\$ -	\$ -	\$ -	08 TRUST			
441 Basic Skills Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 4,166	\$ 4,166	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 14,085	\$ 14,085	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -	Unreserved:			
449 Safe Schools - Crime Levy	\$ -	\$ -	\$ -	422 Unassigned	\$ 965,005	\$ 965,005	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -				
451 QZAB Payments	\$ -	\$ -	\$ -	09 AGENCY			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Unreserved:			
464 Other Purposes	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Committed:							
418 Committed for Severance	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
Assigned				Total Revenue	\$ 1,393	\$ 1,393	\$ -
462 Assigned	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
422 Unassigned	\$ 4,473,172	\$ 4,473,176	\$ (4)	422 Unassigned	\$ 805,846	\$ 805,846	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenue	\$ 933,112	\$ 933,113	\$ (1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 975,843	\$ 975,843	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Fund Balance				Unassigned:			
Nonspendable				422 Unassigned	\$ -	\$ -	\$ -
460 Nonspendable	\$ 44,149	\$ 44,149	\$ -				
Restricted:				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 68,142	\$ 68,143	\$ (1)	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
463 Unassigned	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenue	\$ 736,067	\$ 736,067	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 815,843	\$ 815,844	\$ (1)	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Restricted:			
460 Nonspendable	\$ 76	\$ 76	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
Restricted				Unassigned:			
419 Encumbrances	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 89,685	\$ 89,685	\$ -				
432 E.C.F.E.	\$ 4,344	\$ 4,344	\$ -				
444 School Readiness	\$ 16,831	\$ 16,831	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 13,326	\$ 13,325	\$ 1				
Unassigned							
463 Unassigned	\$ -	\$ -	\$ -				

EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 2859 as of June 30, 2014, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the Independent School District No. 2859 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 2859 as of June 30, 2014, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds Independent School District No. 2859 as of June 30, 2014, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2014**

Funds	Balance 06/30/13	Transfers and Receipts	Transfers and Disburse- ments	Balance 06/30/14
Mock Trial	\$ 1,228	\$ -	\$ 1,228	\$ -
High School Yearbook	921	1,175	1,884	212
Project Dirt	151	-	151	-
DI	154	-	154	-
Art	3,679	1,624	2,198	3,105
Band	19,304	50,348	59,901	9,751
Business Professional Association (BPA)	4,528	8,688	10,676	2,540
Supermileage	(25)	691	666	-
Close-Up	1,722	33,037	32,894	1,865
Kindergarten Entertainment	48	186	234	-
Grade 1 Entertainment	-	318	318	-
Grade 2 Entertainment	-	550	550	-
Grade 3 Entertainment	-	915	915	-
Grade 4 Entertainment	-	499	499	-
Grade 5 Entertainment	-	377	377	-
Grade 6 Entertainment	-	305	305	-
FFA	7,061	60,360	56,786	10,635
FCCLA	91	-	91	-
History	254	561	710	105
Lincoln Student Council	4,058	4,436	6,168	2,326
Lincoln Yearbooks	347	1,190	600	937
HS Student Council	227	647	640	234
LS Student Council	1,378	565	142	1,801
DCD	2	-	2	-
Nat'l Honor Society	3,112	18	201	2,929
Schools Elem Memory Book	2,157	4,515	4,476	2,196
Class of 2014	8,178	1,313	9,491	-
Class of 2015	2,935	15,415	12,790	5,560
Class of 2016	-	6,240	3,226	3,014
Robotics	3,047	217	3,264	-
Wetlands	184	-	184	-
Totals	<u>\$ 64,741</u>	<u>\$ 194,190</u>	<u>\$ 211,721</u>	<u>\$ 47,210</u>

See accompanying Notes Financial Statement.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2014**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

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

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 2859 as of and for the year ended June 30, 2014, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated September 15, 2014. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings and Responses as item 2014-005 through 2014-006. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The District's written responses to the legal compliances finding identified in our audit are described in the Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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



CliftonLarsonAllen LLP

Austin, Minnesota
September 15, 2014

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND RESPONSES – EXTRACURRICULAR STUDENT
ACTIVITY ACCOUNTS
JUNE 30, 2014**

Finding: 2014-005 PURCHASING EQUIPMENT

We noted that an activity account made a purchase of equipment that will remain in the District's possession. According to Manual Activity Fund Accounting, no activity account should purchase equipment that will remain in the district's possession.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to monitor the purchases of the student activity account to ensure only appropriate expenditures are purchased through these accounts.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND RESPONSES – EXTRACURRICULAR STUDENT
ACTIVITY ACCOUNTS
JUNE 30, 2014**

Finding: 2014-006 ACTIVITY PURPOSE FORM

We noted that one of five Activity Purpose Forms selected was not completed and returned to the business office for filing. According to Manual Activity Fund Accounting, all student activities must have a completed Activity Purpose Form on file.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.