

OFFICE OF THE STATE AUDITOR

AUDIT REPORT

**BOARD OF EDUCATION
OF THE CITY OF FARGO
FARGO, NORTH DAKOTA**

FOR THE YEAR ENDED JUNE 30, 2014



BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

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BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

For the Year Ended June 30, 2014

SCHOOL BOARD

Dinah Goldenberg	President
Paul Meyers	Vice-President
Jim Johnson	Board Member
John Strand	Board Member
Kris Wallman	Board Member
Linda Boyd	Board Member
Rick Steen	Board Member
Robin Nelson	Board Member
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Dr. Robert Grosz	Associate Superintendent
Dr. Rachael Agre	Assistant Superintendent
Broc Lietz	Business Manager

STATE AUDITOR

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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

Board of Education of the City of Fargo
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board of Education'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-15 and 45 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 Board of Education of the City of Fargo's basic financial statements. The *schedule of fund activity, combining balance sheet – nonmajor special revenue and debt service funds, combining statement of revenues, expenditures and changes in fund balances – nonmajor special revenue and debt service funds, budgetary comparison schedule – food service fund, budgetary comparison schedule – student activities fund, budgetary comparison schedule – debt service fund, budgetary comparison schedule – capital projects fund, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statements.

The *schedule of fund activity, combining balance sheet – nonmajor special revenue and debt service funds, combining statement of revenues, expenditures and changes in fund balances – nonmajor special revenue and debt service funds, budgetary comparison schedule – food service fund, budgetary comparison schedule – student activities fund, budgetary comparison schedule – debt service fund, budgetary comparison schedule – capital projects fund, and schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 *schedule of fund activity, combining balance sheet – nonmajor special revenue and debt service funds, combining statement of revenues, expenditures and changes in fund balances – nonmajor special revenue and debt service funds, budgetary comparison schedule – food service fund, budgetary comparison schedule – student activities fund, budgetary comparison schedule – debt service fund, budgetary comparison schedule – capital projects fund, and the schedule of expenditures of federal awards* 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 October 14, 2014 on our consideration of the Board of Education of the City of Fargo'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 results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of the City of Fargo's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 14, 2014

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

As management of the Fargo Public School District, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Fargo Public Schools for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished. The intent of this discussion and analysis is to look at the district's financial performance as a whole.

Financial Highlights

- The assets of the Fargo Public School District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$144,125,881 (Net Position). Of this amount, \$37,608,961 (Unrestricted net position) may be used to meet ongoing obligations.
- The Fargo Public School District's total net position increased by \$6,299,418 as a result of the current year's operation.
- The Fargo Public School District's total revenues from all sources were \$156,152,780. Total expenses were \$149,853,362.
- At the close of the current fiscal year, The Fargo Public School District's governmental funds reported combined ending fund balances of \$59,451,274, an increase of \$21,602,742 in comparison with the prior year. Approximately 47.3% or \$28,100,541 is available for spending through an unassigned fund balance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fargo Public School District's basic financial statements. The Fargo Public School District's basic financial statements are comprised of three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

These financial statements are organized so the reader can more clearly understand the Fargo Public School District as a whole.

Government-Wide Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Fargo Public School District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Fargo Public School District's assets and deferred outflows of resources, and the liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fargo Public School District is improving or declining.

The Statement of Activities presents information showing how the school district's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the school district that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

Figure 1, summarizes the major features of the district's financial statements, including portions of the district's activities covered and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure 1 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental	Proprietary Funds
Scope	Entire District	The activities of the district that are not Proprietary or Fiduciary, such as Food Service.	Activities the district operates similar to private Business – <input type="checkbox"/> Internal Service Fund
Required Financial Statements	<input type="checkbox"/> Statement of Net Position <input type="checkbox"/> Statement of Activities	<input type="checkbox"/> Balance Sheet <input type="checkbox"/> Statement of revenues, expenditures and changes in fund balance	<input type="checkbox"/> Statement of Net Position <input type="checkbox"/> Statement of revenues, expenses and changes in fund net position <input type="checkbox"/> Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual Accounting and Economic Resource Focus	Modified accrual accounting and current financial resources focus	Accrual Accounting and Economic Resource Focus
Type of Asset/Liability information	All assets and deferred outflows of resources, and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fargo Public School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fargo Public School District can be divided into three groups: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Proprietary Funds

The Fargo Public School District maintains a proprietary fund to account for the financing of a self-insurance program available to employees. This account is used to accumulate and allocate costs internally on a cost-reimbursement basis

BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of specific groups. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Fargo Public School District

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the district's financial position. The district's net position of \$144,125,881 is segregated into three categories: Net Investment in capital assets, Restricted and Unrestricted. Net Investment in capital assets represents 52.9% of the district's net position. These assets are not available for future spending. Although the Fargo Public School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. Restricted net position represents 21.0% of the district's resources that are subject to external restrictions on how they may be used. Unrestricted net position represents the remaining 26.1% of resources. The unrestricted net position is available to meet the district's ongoing obligations. With an increase in net position of \$6,299,418 in the current fiscal year, we believe an unrestricted balance of 26.1% is sufficient to meet our ongoing obligations.

BOARD OF EDUCATION OF THE CITY OF FARGO
NET POSITION

	2014	2013
<u>Assets</u>		
Current and Non-Current assets	\$ 86,958,583	\$ 64,171,578
Capital assets (net of depreciation)	183,673,807	178,413,610
Total Assets	\$270,632,390	242,585,188
<u>Liabilities and Deferred Inflows of Resources</u>		
Current Liabilities	\$ 15,493,411	\$ 11,770,530
Long Term Liabilities	110,876,150	92,864,414
Total Liabilities	\$126,369,561	\$104,634,944
<u>Deferred Inflows of Resources</u>		
Food Service Commodity Inventory	\$ 4,748	\$ 3,593
Food Service Lunch Credits	132,200	120,188
Total Deferred Inflows of Resources	\$ 136,948	\$ 123,781
Total Liabilities and Deferred Inflows of Resources	\$126,506,509	\$104,758,725
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 76,201,594	\$ 91,159,476
Restricted	30,315,326	11,236,415
Unrestricted	37,608,961	35,430,572
Total Net Position	\$144,125,881	\$137,826,463

Current assets, long-term liabilities and restricted net position all increased as the result of a new \$26.97 million dollar bond which was issued for the purpose of constructing an elementary school and upgrading HVAC systems in six existing schools.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

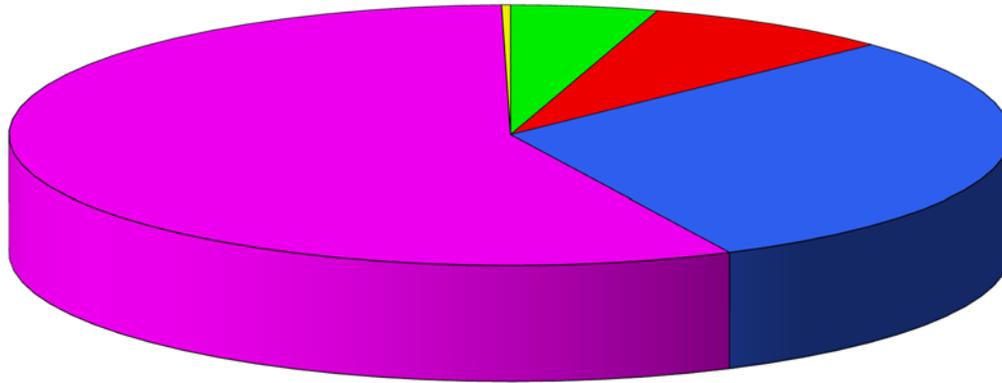
Governmental activities increased the Fargo Public School District's net position by \$6,299,418. Key elements of this increase are as follows:

BOARD OF EDUCATION OF THE CITY OF FARGO CHANGES IN NET POSITION		
	2014	2013
Revenues		
Program Revenues:		
Charges for Services	\$ 7,409,956	\$ 8,997,305
Operating Grants and Contributions	12,596,930	33,755,958
General Revenues		
Taxes	46,870,682	59,028,762
State Aid	88,823,659	48,831,622
Interest and Other Revenue	451,553	465,774
Gain on Sale of Assets	-	715,232
Total Revenues	<u>\$156,152,780</u>	<u>\$151,794,653</u>
Expenses		
Instruction	\$ 91,068,166	\$ 98,430,233
Support Services:		
Pupil Services	3,854,953	3,746,236
Instructional Staff Services	4,727,433	5,319,903
General Administrative Services	3,364,514	2,235,323
School Administrative Services	9,429,199	8,506,734
Business Services	2,909,258	2,454,921
Operations and Maintenance	17,700,607	13,097,626
Pupil Transportation Services	2,356,975	2,017,086
Extracurricular Services	4,722,500	4,400,938
Food Services	6,145,933	5,836,167
Community Services	284,287	327,439
Interest and other charges on Long-Term Debt	3,289,537	5,499,347
Total Expenses	<u>\$149,853,362</u>	<u>\$151,871,953</u>
Change in Net Position	<u>\$ 6,299,418</u>	<u>\$ (77,300)</u>
Net Position – July 1	<u>\$137,826,463</u>	<u>\$137,903,763</u>
Net Position – June 30	<u>\$144,125,881</u>	<u>\$137,826,463</u>

During the 2011 Legislative Session an increase in State Foundation Aid was approved. The aid was set at \$3,910 per student for 2011-2012 and was increased to \$3,980 per student for the 2012-2013 fiscal year. The 2013 Legislative Session increased the State Foundation aid to \$8,810 for the 2013-2014 fiscal year and the rate increases to \$9,092 per student for the 2014-2015 fiscal year. This resulted in the \$39,992,037 increase showing in State Aid. As an offset to the increase in State Aid, the Legislature eliminated the mill levy reduction grant and many of the special levies previously allowed. Subsequently, the Fargo Public Schools saw reductions in property tax revenue and operating grants as shown above. Lower than expected costs for instruction resulted in minimal changes in overall expenses from last year.

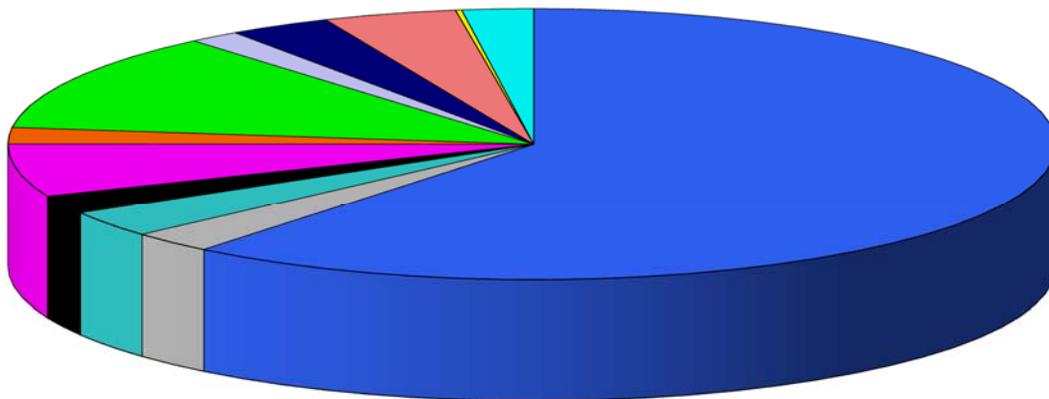
Property taxes constituted 30.02%, state aid 56.88%, operating grants/contributions 8.07%, and other revenues made up the remaining 5.03% of the total revenues of the governmental activities of the District for the 2014 fiscal year. Instruction comprises 60.77% of the district's governmental expenses, while support services account for 37.03% and interest and other charges on long-term debt 2.20%.

**Revenues of the Board of Education of the City of Fargo
 for the Fiscal Year 2014**



■ 4.75% Charges for Services	■ 8.07% Operating Grants and Contributions
■ 30.02% Taxes	■ 56.88% State Aid
■ .28% Interest and Other Revenue	

**Expenses of the Board of Education of the City of Fargo
 for the Fiscal Year 2014**



■ 60.77% Instruction	■ 2.57% Pupil Services
■ 3.15% Instructional Staff Services	■ 2.26% General Administrative Services
■ 6.29% School Administrative Services	■ 1.94% Business Services
■ 11.81% Operations and Maintenance	■ 1.57% Pupil Transportation Services
■ 3.15% Extracurricular Services	■ 4.10% Food Services
■ .19% Community Services	■ 2.20% Interest on Long-Term Debt

BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

As a result of the 2013 Legislative Session, the district's funding pattern has changed from the prior twenty years, which relied heavily on property taxes rather than state sources. The new funding formula, established in the current biennium, places more emphasis on students rather than property. As a result state per pupil aid will increase while property taxes will be reduced. The cost of all governmental activities this year was \$149,853,362 compared to \$151,871,953 for the year ended June 30, 2013.

- Some of the cost was paid for by the users of the district's programs. (\$7,409,956).
- The Federal and State governments subsidized certain programs with grants and contributions (\$12,596,930 for operating purposes).
- Most of the district's revenues (\$136,145,894) and increase in net position, was funded by district taxpayers and the taxpayers of the State of North Dakota
- This portion of governmental activities was paid for with \$46,870,682 in property taxes, \$88,823,659 in state aid based on the statewide education aid formula and \$451,553 with investment earnings and other general revenues.

BOARD OF EDUCATION OF THE CITY OF FARGO
NET COST OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2014

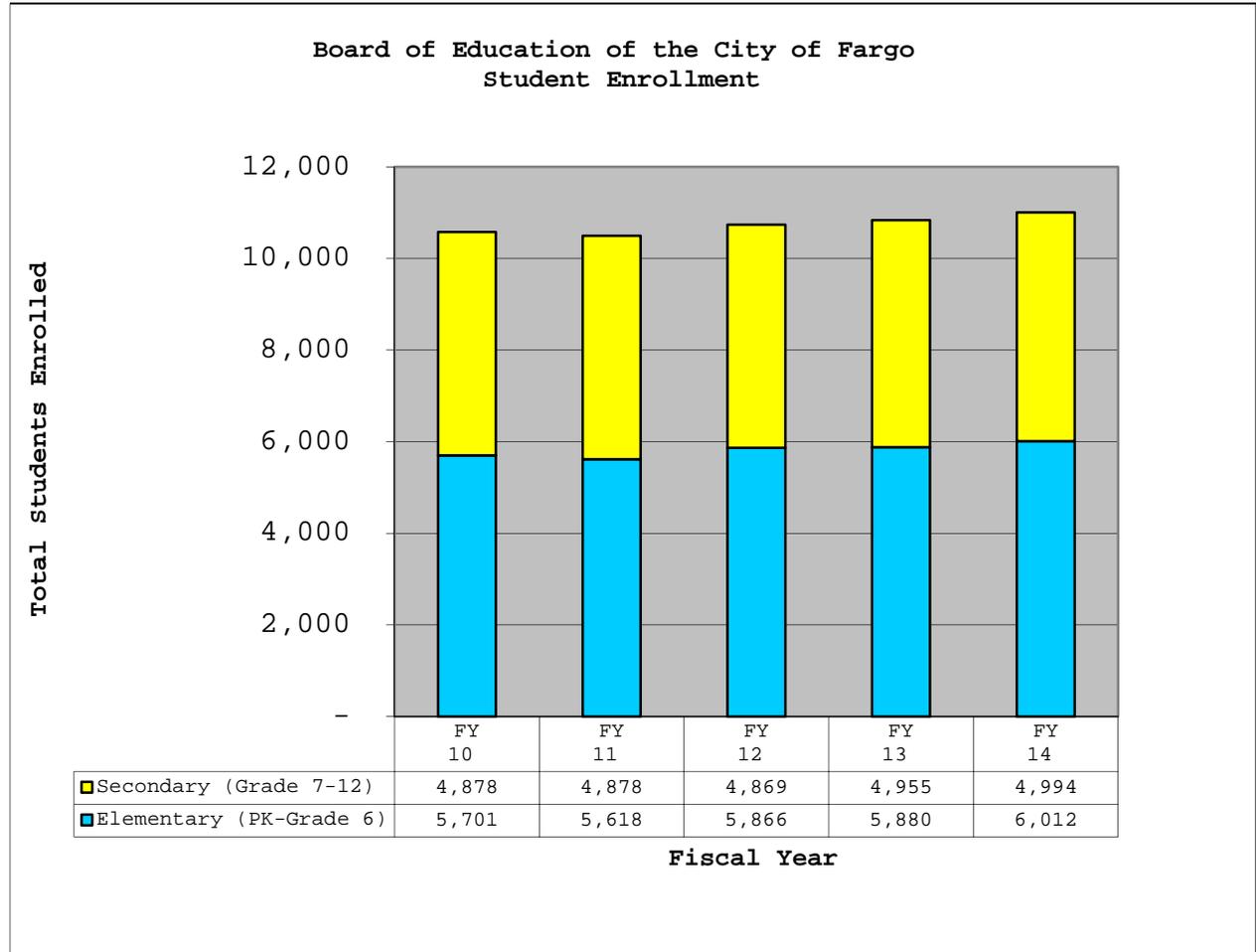
	2014		2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Regular Instruction	\$ 64,270,614	\$ (56,862,197)	\$ 70,743,513	\$ (43,179,119)
Special Education	20,994,685	(17,406,780)	21,786,728	(17,900,183)
Vocational Education	5,163,110	(4,338,605)	5,188,390	(3,542,897)
Adult Education	639,757	(446,073)	711,602	(579,960)
Pupil Services	3,854,953	(3,701,216)	3,746,236	(3,507,042)
Instructional Staff Services	4,727,433	(4,727,433)	5,319,903	(5,319,903)
General Admin Services	3,364,514	(3,364,507)	2,235,323	(2,235,318)
School Admin Services	9,429,199	(9,429,199)	8,506,734	(8,506,734)
Business Services	2,909,258	(2,786,547)	2,454,921	(2,282,932)
Operations & Maintenance	17,700,607	(17,358,468)	13,097,626	(11,266,950)
Pupil Transportation Service	2,356,975	(1,384,437)	2,017,086	(1,116,864)
Extracurricular	4,722,500	(4,277,349)	4,400,938	(3,984,334)
Food Service Outlays	6,145,933	(189,841)	5,836,167	130,332
Community Services	284,287	(284,287)	327,439	(327,439)
Interest Expense	3,289,537	(3,289,537)	5,499,347	(5,499,347)
TOTAL	\$149,853,362	\$(129,846,476)	\$151,871,953	\$(109,118,690)

The "Net Cost of Services" column is calculated by subtracting total program revenues from the expenses of each function. If the expenses of the district's functions surpass the program revenues, negative numbers result in the Statement of Activities, representing a net expense or net cost to the general public. These functions are generally dependent upon general-purpose revenues, including tax dollars. When program revenues exceed expenses, the resulting number is positive, representing net revenue to the general public, sometimes available to offset other program costs. The "positive" or "negative" numbers merely indicate whether a particular function relies on general revenues for financing or is a net contributor to the resources of the district. Because the district relies on property taxes and state aid as its primary funding sources, the total net cost of services will be a negative number.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

GENERAL FUND

The General Fund includes the primary operations of the district in providing educational services to students from pre-school through grade 12. Over the last five years, the district's total student population has increased from 10,579 to 11,006. Fiscal year 2014 saw a 171 student increase in enrollment. Because of continuing strong development of new residential areas and the completion of Davies high school, we anticipate that the total number of students will increase slightly or remain stable in the future.



The following schedule presents a summary of General Fund revenues.

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Local Sources	\$ 44,340,553	\$ 55,591,933	\$(11,251,380)	(20.24)%
State Sources	91,190,111	70,892,000	20,298,111	28.63%
Federal Sources	7,499,358	8,643,839	(1,144,481)	(13.24)%
Other Sources	226,615	159,651	66,964	41.94%
Total General Fund Revenue	\$143,256,637	\$135,287,423	\$ 7,969,214	5.89%

During fiscal year 2014 the total General Fund revenue increased by \$7,969,214, or 5.89% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of a mix of property taxes and state aid revenue.

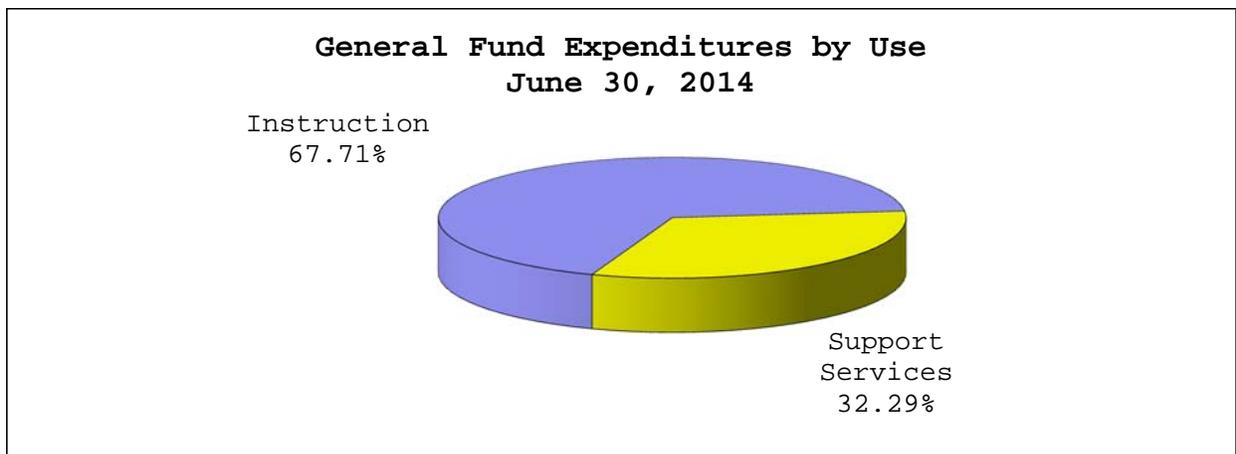
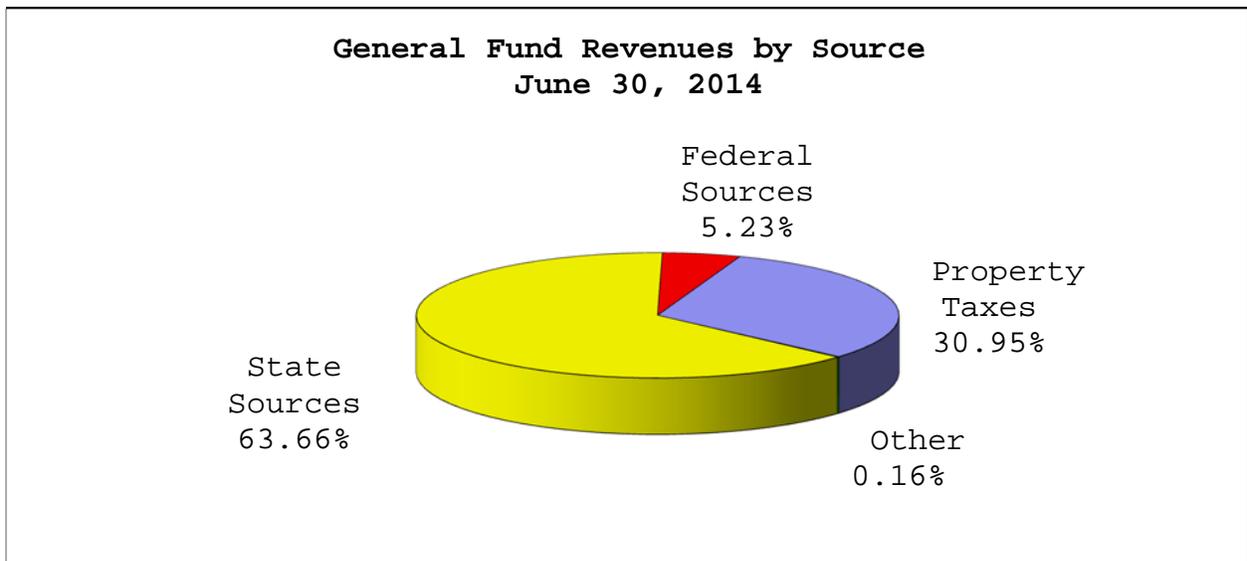
BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Instruction	\$ 91,574,011	\$ 91,238,678	\$ 335,333	.37%
Support Services	43,676,467	37,673,162	6,003,305	15.94%
Debt Service	-	1,846,872	(1,846,872)	(100.00)%
Total General Fund Expenditures	\$135,250,478	\$130,758,712	\$4,491,766	3.44%

Total General Fund expenditures increased \$4,491,766 or 3.44% from the previous year. In fiscal year 2014, Support Services, mainly operations and maintenance costs, increased because of several remodeling projects and ongoing maintenance being funded through the General Fund.

In fiscal year 2014, General Fund revenues exceeded expenditures by \$1,808,378 (after other financing sources/uses), resulting in a total fund balance of \$28,228,428, compared to a fund balance in 2013 of \$26,420,050.



General Fund Budgetary Highlights

During the year there was a \$4,848,571 increase in appropriations between the original and final revenue (and Other Financing Sources/ Uses) budget and an increase of \$4,763,745 between the original and final expenditure budget. The actual revenue amount was less than the final budget by \$2,808,176. The majority of this difference resulted from a lower than projected per pupil aid payment and less in state grants. The actual expenditure amount was less than the final budget by \$6,456,187. During the 2013-2014 school year, Administrative Policy 5452 "Longevity Recognition" was changed. Employees who were eligible in the past at age 55 or older for this benefit now must be age 65 or older or have met the rule of 85. This change along with several retirements resulted in the majority of the reduction in expenditures.

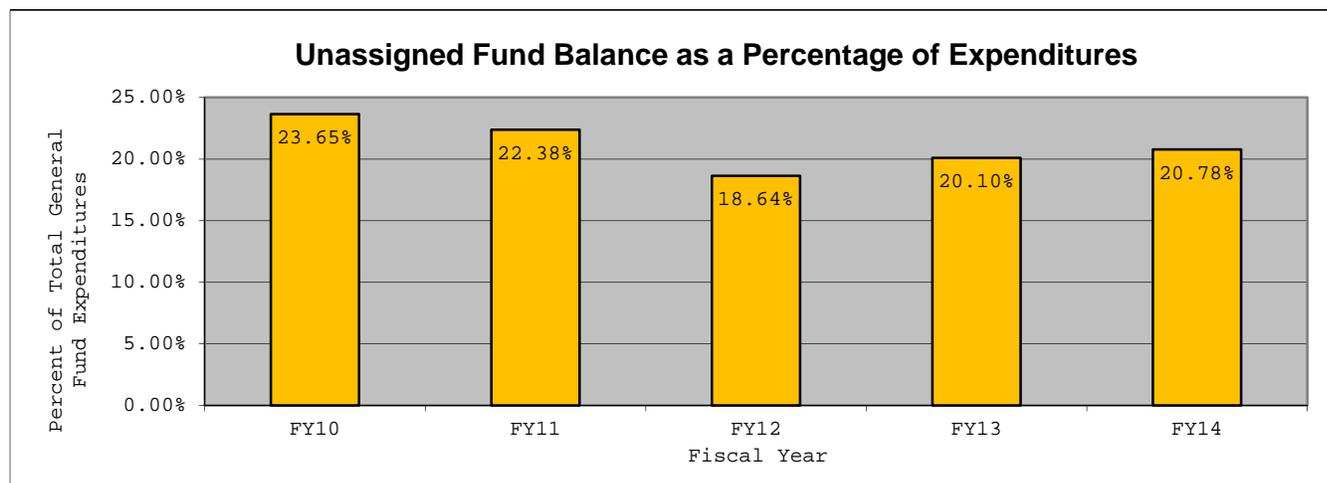
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues and Other Financing Sources	\$142,293,058	\$147,141,629	\$144,333,453	\$(2,808,176)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures and Other Financing Uses	\$144,217,517	\$148,981,262	\$142,525,075	\$6,456,187

**SUMMARY OF GENERAL FUND CHANGES
 LAST TEN FISCAL YEARS**

School Year	Beginning Balance July 1	Revenues	Expenditures	Other Financing Uses and Transfers In	Ending Balance June 30
2004-2005	20,467,222	98,308,354	91,984,806	(3,911,183)	22,879,587
2005-2006	22,879,587	103,873,065	97,701,269	(3,865,135)	25,186,248
2006-2007	25,186,248	108,442,734	103,833,289	(4,077,431)	25,718,262
2007-2008	25,718,262	112,477,359	105,771,454	(4,641,219)	27,782,948
2008-2009	27,782,948	115,146,900	110,414,481	(6,168,359)	26,347,008
2009-2010	26,347,008	126,859,924	115,831,876	(6,719,034)	30,656,022
2010-2011	30,656,022	137,347,429	125,333,733	(7,551,010)	35,118,708
2011-2012	35,118,708	131,096,376	132,684,435	(6,817,884)	26,712,765
2012-2013	26,712,765	135,287,423	130,758,712	(4,821,426)	26,420,050
2013-2014	26,420,050	143,256,637	135,250,478	(6,197,781)	28,228,428

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures for the last five fiscal years.



BOARD OF EDUCATION OF THE CITY OF FARGO
 Management's Discussion and Analysis - Continued

The graph is one of the best measures of overall financial health. The unassigned fund balance of \$28,100,541 at June 30, 2014 represents 20.78% of annual general fund expenditures. The Board of Education of the City of Fargo established a 10% fund balance goal several years ago to help with financial stability. It substantially modified that goal to 15% and has surpassed it since fiscal year 2002. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district.

CAPITAL PROJECTS FUND

The Capital Projects fund is also a major fund for the Board of Education of the City of Fargo. This fund is where we report major capital acquisitions and construction. The use of a capital projects fund allows us to report construction activities financed through bond borrowings separate from the ongoing operating activities of the general fund.

The following schedule presents a summary of Capital Projects Fund revenues.

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Local Sources	\$7,759,511	\$8,787,425	\$(1,027,914)	(11.70)%

Total Capital Projects Fund revenues decreased \$1,027,914 or 11.70% from the previous year. The primary reason for the decrease during fiscal year 2014 is that the prior year included over \$840,000 from the sale of the Dakota Boys Ranch.

The following schedule presents a summary of Capital Projects Fund expenditures.

	Year Ended June 30, 2014	Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Operations & Maint.	\$ 2,675	\$ 4,312	\$ (1,637)	(37.96)%
Capital Outlay	7,572,703	45,089	7,527,614	16,695.01%
Principal	599,443	3,657,429	(3,057,986)	(83.61)%
Interest	107,477	201,302	(93,825)	(46.61)%
Bond Costs	306,849	248,569	58,280	23.45%
Total Capital Projects Expenditures	\$8,589,147	\$4,156,701	\$ 4,432,446	106.63%

Total Capital Projects Fund expenditures increased \$4,432,446 or 106.63% from the previous year. In fiscal year 2014, capital outlay expenditures increased because of the beginning of construction on the new Ed Clapp elementary school and HVAC projects at six other schools. Principal costs were reduced after paying off over \$3,200,000 in special assessments the prior year to save on additional interest charges.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the Fargo Public School District had \$183,673,807 invested in capital assets. This investment includes land and land improvements, buildings and improvements, equipment and vehicles, and construction in progress.

BOARD OF EDUCATION OF THE CITY OF FARGO
 CAPITAL ASSETS (NET OF DEPRECIATION)

	2014	2013
Land and Land Improvements	\$ 11,395,198	\$ 11,395,198
Buildings and Improvements	159,248,023	163,354,284
Equipment and Vehicles	3,149,172	3,147,604
Construction in Progress	9,881,414	516,524
Total Capital Assets	\$183,673,807	\$178,413,610

BOARD OF EDUCATION OF THE CITY OF FARGO
Management's Discussion and Analysis - Continued

Construction in progress increased because of HVAC projects at six schools and the initial costs for the new Ed Clapp elementary school which is projected to open in the fall of 2015. Buildings and Improvements decreased mainly from depreciation. More detailed information about capital assets can be found in Note 10 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the district had \$109,836,049 in outstanding debt. Of this amount, \$102,565,722 is long-term debt. The remaining \$7,270,327 is a current liability due within one year. The Fargo Public School District increased its existing debt obligations by \$18,500,731. The key factor for this is the addition of the 2014 Limited Tax Bond which will be used to finance the building of Ed Clapp Elementary school and the six HVAC projects. Sick leave longevity payable is greatly reduced due to the change in Administrative Policy 5452 "Longevity Recognition." More detailed information about the district's long-term liabilities is presented in Note 18 to the financial statements.

BOARD OF EDUCATION OF THE CITY OF FARGO
OUTSTANDING GENERAL LONG-TERM DEBT

	2014	2013
General Obligation Bonds Payable	\$ 88,335,000	\$65,030,000
Paid Leave System Payable	1,494,031	778,376
Special Assessments Payable	579,492	91,134
Building Authority Revenue Bonds Payable	18,155,000	20,715,000
Compensated Absences Payable	472,853	479,983
Sick Leave Longevity Payable	456,154	4,045,022
PTO Payable	343,519	215,765
Total	<u>\$109,836,049</u>	<u>\$91,355,280</u>

Economic Factors and Next Year's Budget

During the period, prior to 2010-11, the burden of financing education in North Dakota steadily and continually shifted from state sources to local sources. The 2009 Legislative Session made a significant change in this direction, committing state resources to school districts that resulted in a 75 mill reduction in local mill levies; this was reaffirmed in the 2011 Legislative Session. The 2013 Legislative Session made an even more significant shift in K-12 education funding.

The 2013 Legislative Session provided for an increase in the state foundation aid to a level of \$8,810 per student for the 2013-14 fiscal year. This rate increases to \$9,092 per student for the 2014-15 fiscal year. This is an increase from \$3,910 and \$3,980 during the previous biennium. This change resulted in the elimination of the mill levy reduction grants provided for in the previous legislative sessions, and calls for a minimum mill levy reduction of 50 mills. This sets the state mill levy cap at 60, a reduction from the previous cap of 110 mills. The new formula also eliminates many of the special levies previously allowable, such as a technology levy and high school tuition levy. These are replaced by a statutory allowance for up to 12 mills for miscellaneous purposes. In total, this change in funding is supported by Fargo Public Schools, as we are a growing district and the formula places much more emphasis on students rather than property. Subsequently, Fargo Public Schools experienced reductions in property tax revenue in 2013-14 of (\$12,158,080) and state property tax relief previously funded at (\$19,672,962). This was offset by an increase in state per pupil aid of \$39,992,037.

Several years ago, during long term planning processes, we established goals related to our general operations. A fund balance goal, to help with financial stability, was established at 10%. That goal was substantially modified to 15%, and has been reached and surpassed with a current fund balance of 20.78%. In recent years, this unassigned fund balance has fluctuated due to the district making capital project expenditures without securing additional debt. We will continue to monitor the fund balance to assure we are maintaining a level consistent with our 15% goal.

BOARD OF EDUCATION OF THE CITY OF FARGO
Management's Discussion and Analysis - Continued

We also wanted mill levy increases to be minimal or even decline over time. Since fiscal year 2001, the general fund mill levy has declined from 295.46 mills to the current levy of 139.00 mills. This is a result of both the district's commitment to being good stewards of tax payer money and the legislative action described above. Legislative action reduced the general fund mill levy by 125 mills over this period and the district reduced the mill levy an additional 31.46 mills. This reduction, by the district, was beyond what was prescribed by law.

In addition, this district set the following long-term objectives related to our operations:

1. This district will strive to maintain a salary and benefit package that attracts and retains the quality staff we have in the district. Our teacher compensation package ranks near the top in the state and our recent efforts to improve that package should keep the district at the top of the compensation comparison in the state.
2. This district will monitor existing debt and refinance when rates are favorable. Over the past several years all of the existing debt that could be refinanced has been restructured to realize cost savings.
3. With the completion of the new Long Range Facilities Plan, the district has a renewed commitment to operational maintenance expenses to ensure existing facilities remain modernized and efficient.

Final approval of the new Long Range Facilities plan occurred early in the 2013-2014 fiscal year and was the spring board for two major capital projects; 1.) HVAC installation in six (6) existing elementary buildings, and 2.) The design and construction of a new south side elementary school. These projects were bonded during the 2013-2014 fiscal year with debt payment assigned to the existing Building Fund. The district had no need to increase the Building Fund levy to meet this new obligation.

The Fargo Public School district held a special election in March of 2014 to request excess mill levy authority. As a result of the 2009 Legislative action to provide property tax relief, renewing taxpayer authorization of excess levy authority is required no later than December 31, 2015. The district did not receive a favorable outcome during the special election. As a result, the district is embarking on a new Strategic Planning Process which will engage the public in shaping the future of K-12 education for the district. This process will identify where the district plans to go with educational services and programming over the next decade. The outcome of this process will also identify the financial needs to meet this direction and will serve as the framework for a new Long Range Financial Plan to include a timeframe for a second public vote on the excess mill levy issue.

While the current financial condition of the district is strong, careful planning and financial stewardship must be followed to ensure that stability remains in future years. We will work diligently through the course of the year to monitor both revenues and expenses to maintain a balanced general operating budget, while continually striving for efficiencies going forward.

Requests for Information

This financial report is designed to provide a general overview of the Fargo Public School District's finances for all our citizens, taxpayers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Fargo Public Schools District Office
Broc Lietz
Business Manager
415 4th Street North
Fargo, North Dakota 58102

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

STATEMENT OF NET POSITION
 June 30, 2014 and 2013 (Summarized Comparative Totals 2013)

	Governmental Activities	
	2014	2013
ASSETS:		
Current Assets:		
Cash and Investments	\$ 74,705,926	\$ 52,930,600
Cash with Fiscal Agent	16	-
Accounts Receivable	243,311	97,751
Taxes Receivable	2,282,617	3,325,765
Intergovernmental Receivable	4,894,478	4,086,947
Due from County Treasurer	1,969,395	581,608
Inventories	141,957	150,804
Contracts Receivable	2,662,140	2,901,134
Interest Receivable	855	96,969
Bond Discount - Unamortized	2,968	-
Non-Current Assets:		
Bond Discount - Unamortized	54,920	-
Capital Assets (Not Being Depreciated):		
Land	11,395,198	11,395,198
Construction in Progress	9,881,414	516,524
Capital Assets (Net of Accumulated Depreciation):		
Buildings and Improvements	159,248,023	163,354,284
Equipment and Vehicles	3,149,172	3,147,604
Total Capital Assets	<u>\$ 183,673,807</u>	<u>\$ 178,413,610</u>
Total Assets	<u>\$ 270,632,390</u>	<u>\$ 242,585,188</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:		
Accounts Payable	\$ 5,875,489	\$ 1,878,114
Salaries and Benefits Payable	6,768,197	8,074,710
Due to Other Agencies	104,167	84,205
Contracts Payable	631,693	30,194
IBNR Claims	1,465,670	1,185,185
Interest Payable	648,195	518,122
Long-Term Liabilities:		
Due Within One Year:		
Bonds Payable	7,205,000	6,225,000
Special Assessments Payable	65,327	28,994
Bond Premium - Unamortized	142,812	141,687
Due After One Year:		
Bonds Payable	99,285,000	79,520,000
Special Assessments Payable	514,165	62,140
Compensated Absences	472,853	479,983
Paid Leave System Payable	1,494,031	778,376
Sick Leave Longevity Payable	456,154	4,045,022
PTO Payable	343,519	215,765
Bond Premium - Unamortized	897,289	1,367,447
Total Liabilities	<u>\$ 126,369,561</u>	<u>\$ 104,634,944</u>
DEFERRED INFLOWS OF RESOURCES:		
Food Service Commodity Inventory	\$ 4,748	\$ 3,593
Food Service Lunch Credits	132,200	120,188
Total Deferred Inflows of Resources	<u>\$ 136,948</u>	<u>\$ 123,781</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 126,506,509</u>	<u>\$ 104,758,725</u>
NET POSITION:		
Net Investment in Capital Assets	\$ 76,201,594	\$ 91,159,476
Restricted For:		
Capital Projects	30,315,313	11,236,415
Debt Service	13	-
Unrestricted	<u>37,608,961</u>	<u>35,430,572</u>
Total Net Position	<u>\$ 144,125,881</u>	<u>\$ 137,826,463</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	2014			2013	
	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes In Net Position	Net (Expense) Revenue and Changes In Net Position
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 64,270,614	\$ 1,879,055	\$ 5,529,362	\$ (56,862,197)	\$ (43,179,119)
Special Education	20,994,685	887,811	2,700,094	(17,406,780)	(17,900,183)
Vocational Education	5,163,110	59,055	765,450	(4,338,605)	(3,542,897)
Adult Education	639,757	-	193,684	(446,073)	(579,960)
Support Services:					
Pupil Services	3,854,953	153,737	-	(3,701,216)	(3,507,042)
Instructional Staff Services	4,727,433	-	-	(4,727,433)	(5,319,903)
General Administrative Services	3,364,514	7	-	(3,364,507)	(2,235,318)
School Administrative Services	9,429,199	-	-	(9,429,199)	(8,506,734)
Business Services	2,909,258	122,711	-	(2,786,547)	(2,282,932)
Operations and Maintenance	17,700,607	342,139	-	(17,358,468)	(11,266,950)
Pupil Transportation Services	2,356,975	3,683	968,855	(1,384,437)	(1,116,864)
Extracurricular	4,722,500	445,151	-	(4,277,349)	(3,984,334)
Food Service Outlays	6,145,933	3,516,607	2,439,485	(189,841)	130,332
Community Services	284,287	-	-	(284,287)	(327,439)
Interest & Other Charges on Long-Term Debt	3,289,537	-	-	(3,289,537)	(5,499,347)
Total Governmental Activities	\$ 149,853,362	\$ 7,409,956	\$ 12,596,930	\$ (129,846,476)	\$ (109,118,690)
<u>General Revenues:</u>					
Taxes:					
Property Taxes; Levied for General Purposes				\$ 38,743,028	\$ 50,660,265
Property Taxes; Levied for Debt Service				7,200,509	7,432,479
Other Tax Revenue				927,145	936,018
State Aid not Restricted to Specific Program:					
Per Pupil Aid				88,823,659	48,831,622
Interest Income and Other Revenue				451,553	465,774
Gain on Sale of Capital Assets				-	715,232
Total General Revenues				\$ 136,145,894	\$ 109,041,390
Change in Net Position				\$ 6,299,418	\$ (77,300)
Net Position - July 1, 2013				\$ 137,826,463	\$ 137,903,763
Net Position - June 30, 2014				\$ 144,125,881	\$ 137,826,463

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BALANCE SHEET-GOVERNMENTAL FUNDS
June 30, 2014 (Summarized Comparative Totals 2013)

	MAJOR FUNDS		Nonmajor Governmental Funds	Total Governmental Funds	
	General Fund	Capital Projects		2014	2013
ASSETS					
Cash and Investments	\$ 30,487,981	\$ 32,078,656	\$ 2,912,520	\$ 65,479,157	\$ 42,994,854
Cash with Fiscal Agent	-	3	13	16	-
Interest Receivable	855	-	-	855	96,969
Accounts Receivable	211,500	280	11,122	222,902	86,906
Taxes Receivable	1,937,070	345,547	-	2,282,617	3,325,765
Intergovernmental Receivable	4,889,070	-	5,408	4,894,478	4,086,947
Due from County Treasurer	1,658,077	311,318	-	1,969,395	581,608
Contracts Receivable	-	2,662,140	-	2,662,140	2,901,134
Inventories	127,887	-	14,070	141,957	150,804
Total Assets	\$ 39,312,440	\$ 35,397,944	\$ 2,943,133	\$ 77,653,517	\$ 54,224,987
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
<u>Liabilities:</u>					
Accounts Payable	\$ 2,291,434	\$ 3,285,600	\$ 39,447	\$ 5,616,481	\$ 1,836,666
Salaries and Benefits Payable	6,688,992	-	79,205	6,768,197	8,074,710
Due to Other Agencies	104,167	-	-	104,167	84,205
Contracts Payable	62,349	569,344	-	631,693	30,194
Total Liabilities	\$ 9,146,942	\$ 3,854,944	\$ 118,652	\$ 13,120,538	\$ 10,025,775
<u>Deferred Inflows of Resources:</u>					
Uncollected Taxes Receivable	\$ 1,937,070	\$ 345,547	\$ -	\$ 2,282,617	\$ 3,325,765
Uncollected Contracts Receivable	-	2,662,140	-	2,662,140	2,901,134
Food Service Commodity Inventory	-	-	4,748	4,748	3,593
Food Service Lunch Credits	-	-	132,200	132,200	120,188
Total Deferred Inflows of Resources	\$ 1,937,070	\$ 3,007,687	\$ 136,948	\$ 5,081,705	\$ 6,350,680
<u>Fund Balances:</u>					
<u>Non-Spendable:</u>					
Inventories	\$ 127,887	\$ -	\$ 9,322	\$ 137,209	\$ 147,211
Contracts Receivable	-	2,662,140	-	2,662,140	2,901,134
<u>Restricted:</u>					
Debt Service	-	3	13	16	-
Capital Projects Fund	-	25,873,170	-	25,873,170	5,613,948
<u>Assigned:</u>					
Special revenue fund (food service)	-	-	2,678,198	2,678,198	2,905,649
Unassigned:	28,100,541	-	-	28,100,541	26,280,590
Total Fund Balances	\$ 28,228,428	\$ 28,535,313	\$ 2,687,533	\$ 59,451,274	\$ 37,848,532
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 39,312,440	\$ 35,397,944	\$ 2,943,133	\$ 77,653,517	\$ 54,224,987

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total <i>Fund Balances</i> for Governmental Funds		\$ 59,451,274
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	\$ 241,538,756	
Less: Accumulated Depreciation	(57,864,949)	
Net Capital Assets		183,673,807
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 uncollected revenues in the funds.		
		2,282,617
Contracts receivable are amounts due from the park district which will be collected in future years. They are reported as uncollected revenue in the governmental funds.		
		2,662,140
Interest payable on long-term debt is not accrued in the governmental fund statements until due, but is recorded as an expense on the statement of net position.		
		(648,195)
Long-term assets and liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund assets or liabilities. All assets and liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2014 are:		
Bonds Payable	\$ (106,490,000)	
Sick Leave Longevity	(456,154)	
PTO Payable	(343,519)	
Unamortized Bond Discount	57,888	
Unamortized Bond Premium	(1,040,101)	
Paid Leave System Payable	(1,494,031)	
Special Assessments	(579,492)	
Compensated Absences	(472,853)	
Total Long-Term Liabilities		(110,818,262)
An internal service fund is used by the School District to charge the cost of medical insurance, worker's compensation insurance and unemployment claims to individual functions. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. Internal service fund net position is:		
		7,522,500
Total Net Position of Governmental Activities		\$ 144,125,881

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds	
	General	Capital Projects		2014	2013
Revenues:					
Local Sources	\$ 44,340,553	\$ 7,759,511	\$ 3,984,447	\$ 56,084,511	\$ 68,383,101
State Sources	91,190,111	-	52,331	91,242,442	70,945,740
Federal Sources	7,499,358	-	2,381,996	9,881,354	10,973,174
Other Sources	226,615	-	-	226,615	159,651
Total Revenues	\$ 143,256,637	\$ 7,759,511	\$ 6,418,774	\$ 157,434,922	\$ 150,461,666
Expenditures:					
Current:					
Instruction:					
Regular	\$ 64,708,323	\$ -	\$ -	\$ 64,708,323	\$ 65,722,668
Special Education	21,050,947	-	-	21,050,947	20,157,808
Vocational Education	5,158,907	-	-	5,158,907	4,688,374
Adult Education	655,834	-	-	655,834	669,828
Support Services:					
Pupil Services	3,985,241	-	-	3,985,241	3,594,298
Instructional Staff Services	4,942,322	-	-	4,942,322	5,287,464
General Administration Services	2,373,137	-	-	2,373,137	2,335,197
School Administration Services	9,238,871	-	-	9,238,871	8,549,585
Business Services	2,970,763	-	-	2,970,763	2,416,087
Operations and Maintenance	17,357,834	2,675	-	17,360,509	12,996,065
Pupil Transportations Services	2,286,381	-	-	2,286,381	2,017,135
Extracurricular	247,410	-	4,254,771	4,502,181	4,302,478
Food Service Outlays	-	-	6,013,613	6,013,613	5,744,536
Community Services	274,508	-	-	274,508	327,724
Capital Outlays	-	7,572,703	-	7,572,703	45,089
Debt Service:					
Principal	-	599,443	5,810,000	6,409,443	11,379,301
Interest	-	107,477	3,051,986	3,159,463	4,324,502
Bond Costs	-	306,849	-	306,849	248,569
Total Expenditures	\$ 135,250,478	\$ 8,589,147	\$ 19,130,370	\$ 162,969,995	\$ 154,806,708
Excess of Revenues Over (Under) Expenditures	\$ 8,006,159	\$ (829,636)	\$ (12,711,596)	\$ (5,535,073)	\$ (4,345,042)
Other Financing Sources (Uses):					
Transfers In	\$ 1,063,613	\$ 485,200	\$ 12,743,229	\$ 14,292,042	\$ 16,736,522
Transfers Out	(7,274,597)	(6,757,445)	(260,000)	(14,292,042)	(16,736,522)
Proceeds of Debt Issuance	-	26,970,000	-	26,970,000	26,130,000
Payment to Refunded Bond Escrow Agent	-	-	-	-	(23,248,638)
Refunded Bonds Redeemed	-	-	-	-	(1,497,473)
Discount on the Sale of Bonds	-	(57,888)	-	(57,888)	-
Premium on the Sale of Bonds	-	-	-	-	708,702
Sale of Capital Assets	13,203	210,000	2,500	225,703	1,564,535
Total Other Financing Sources (Uses)	\$ (6,197,781)	\$ 20,849,867	\$ 12,485,729	\$ 27,137,815	\$ 3,657,126
Net Change in Fund Balances	\$ 1,808,378	\$ 20,020,231	\$ (225,867)	\$ 21,602,742	\$ (687,916)
Fund Balance - July 1	\$ 26,420,050	\$ 8,515,082	\$ 2,913,400	\$ 37,848,532	\$ 38,536,448
Fund Balance - June 30	\$ 28,228,428	\$ 28,535,313	\$ 2,687,533	\$ 59,451,274	\$ 37,848,532

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Net Change in <i>Fund Balances</i> - Total Governmental Funds		\$ 21,602,742
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.</p>		
Current Year Capital Outlay	\$ 9,965,668	
Current Year Depreciation	<u>(4,913,874)</u>	5,051,794
<p>In the Statement of Activities, the gain or loss on sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.</p>		
Net Loss on the Sale of Capital Assets		(282,889)
<p>An internal service fund is used by the district's management to charge the cost of medical insurance, workers' compensation and unemployment claims to individual funds. The net revenue / loss of the internal service fund is reported with governmental activities.</p>		
		(1,197,458)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Net Decrease in Compensated Absences	\$ 7,130	
Net Decrease in Sick Leave Longevity Payable	3,588,868	
Net Increase in Paid System Leave Payable	(715,655)	
Net Increase in PTO Payable	(127,754)	
Net Increase in Interest Payable	(130,073)	
Net Increase in Special Assessments	<u>(488,358)</u>	2,134,158
<p>Bond proceeds are reported as financing sources in governmental funds that contribute to the change in fund balance. In the government wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities.</p>		
2014 Limited Tax Refunding Bond	\$ (26,970,000)	
Bond Discount	<u>57,888</u>	(26,912,112)
<p>Bond issue costs are reported as an expenditure in the governmental funds when they occur, and with the new guidance from GASB 65, these costs are being capitalized in full in the government-wide statements.</p>		
		306,849
<p>Governmental funds report bond premiums when they are first issued. In government-wide statements these amounts are deferred and amortized in the statement of activities.</p>		
Bond Premium Amortization		469,033
<p>Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		6,409,443
<p>Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of uncollected taxes and uncollected contracts receivable.</p>		
Decrease in Uncollected Taxes Receivable	\$ (1,043,148)	
Decrease in Uncollected Contracts Receivable	<u>(238,994)</u>	(1,282,142)
Change in Net Position of Governmental Activities		<u>\$ 6,299,418</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 June 30, 2014 and 2013 (Summarized Comparative Totals 2013)

	Internal Service Fund	
	2014	2013
ASSETS:		
<u>Current Assets:</u>		
Cash and Investments	\$ 9,226,769	\$ 9,935,746
Accounts Receivable	20,409	10,845
Total Current Assets	<u>\$ 9,247,178</u>	<u>\$ 9,946,591</u>
 LIABILITIES:		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 259,008	\$ 41,448
IBNR Claims	1,465,670	1,185,185
Total Liabilities	<u>\$ 1,724,678</u>	<u>\$ 1,226,633</u>
 NET POSITION:		
Restricted For:		
Retiree's Insurance	\$ 4,000	\$ 20,000
Patient Centered Outcomes Research Inst.	3,765	-
Transitional Reinsurance Program (TRP)	236,754	-
Workman's Compensation	2,000	50,000
Unrestricted	<u>7,275,981</u>	<u>8,649,958</u>
Total Net Position	<u>\$ 7,522,500</u>	<u>\$ 8,719,958</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Years Ended June 30, 2014 and 2013 (Summarized Comparative Totals 2013)

	Internal Service Fund	
	2014	2013
<u>Operating Revenues:</u>		
Contributions to Self-Insurance	<u>\$ 15,283,152</u>	<u>\$ 14,898,345</u>
<u>Operating Expenses:</u>		
Health Insurance Claims	<u>\$ 16,480,610</u>	<u>\$ 14,653,354</u>
Operating Income (Loss)	<u>\$ (1,197,458)</u>	<u>\$ 244,991</u>
Total Net Position - July 1	<u>\$ 8,719,958</u>	<u>\$ 8,474,967</u>
Total Net Position - June 30	<u>\$ 7,522,500</u>	<u>\$ 8,719,958</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the Years Ended June 30, 2014 and 2013 (Summarized Comparative Totals 2013)

	Internal Service Fund	
	2014	2013
<u>Cash Flows from Operating Activities:</u>		
Received from User Charges	\$ 15,273,588	\$ 14,887,500
Payments for Health Insurance Claims	(15,982,565)	(14,518,733)
Net Cash Used/Provided by Operating Activities	\$ (708,977)	\$ 368,767
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (708,977)	\$ 368,767
Cash and Cash Equivalents - Beginning of Year	\$ 9,935,746	\$ 9,566,979
Cash and Cash Equivalents - End of Year	\$ 9,226,769	\$ 9,935,746
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>		
Operating Income (Loss)	\$ (1,197,458)	\$ 244,991
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(9,564)	(10,845)
Increase in Accounts Payable	217,560	12,990
Increase in IBNR Claims Payable	280,485	121,631
Net Cash Used/Provided by Operating Activities	\$ (708,977)	\$ 368,767

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2014 and 2013 (Summarized Comparative Totals 2013)

	<u>Agency Funds</u>	
	<u>2014</u>	<u>2013</u>
<u>ASSETS:</u>		
Cash and Investments	\$ 2,153,655	\$ 2,114,913
Due from Other Governmental Units	507,129	307,698
Accounts Receivable	49,622	20,528
	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,710,406</u>	<u>\$ 2,443,139</u>
<u>LIABILITIES:</u>		
Accounts Payable	\$ 91,707	\$ 87,577
Salaries and Benefits Payable	35,600	-
Due to Other Agencies	204,959	240,719
Due to Student Groups	2,378,140	2,114,843
	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 2,710,406</u>	<u>\$ 2,443,139</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education of the City of Fargo have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the school district's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Board of Education of the City of Fargo. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board of Education of the City of Fargo to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board of Education of the City of Fargo.

Based on these criteria, there is one component unit to be included within the Board of Education of the City of Fargo as a reporting entity.

BLENDING COMPONENT UNIT

This component unit is a legally separate entity, which provides services exclusively to the school.

Fargo School District Building Authority – The building authority was created by the school board as a legally separate entity. Its purpose is to promote the educational system of the district by providing financing for use by the school in altering, repairing, maintaining or constructing buildings and making improvements connected to school buildings. The school board is the governing board of the building authority. Activity of the Building Authority is recorded in the debt service and capital projects funds. Financial statements for the component unit may be obtained at the Fargo Public School District Office.

B. Basis of Presentation, Basis of Accounting

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, the Board of Education of the City of Fargo. These statements include financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the school district's funds including fiduciary funds. Separate statements for each fund category: governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The school district reports the following governmental funds:

General Fund. This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund. This fund is used to account for financial resources that are restricted, committed or assigned for the acquisition or construction of major capital facilities.

Additionally, the school district reports the following fund types:

Internal Service Fund. This fund accounts for medical insurance, workers' compensation insurance and unemployment claims provided to other departments on a cost-reimbursement basis.

Agency Funds. This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The fiduciary funds are agency funds. The government-wide, proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Under the terms of grant agreements, the school district funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both a restricted and unrestricted net position available to finance the program. It is the school district's policy to first apply cost-reimbursement grant resources to such programs, and then use general revenues.

D. Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general, special revenue, debt service and capital projects funds on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Encumbrance accounting is employed in governmental funds. Encumbrances, which are comprised of purchase orders, outstanding at year-end, are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated during the subsequent fiscal year.

E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents consist of deposits with a maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance. The bank balances of the district, as of the balance sheet date, are entirely insured or collateralized with securities held by the school system or its agent in the school system's name.

Investments consist of certificates of deposit stated at cost and government securities for the building authority stated at fair value. Although all deposits of the district are categorized as Category 1, readers should be aware of the three categories of disclosure required for investments and deposits.

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

Category	Investments	Deposits
1	Insured or registered or securities held by the entity or its agent in the entity's name.	Insured or collateralized, with securities held by the entity or by its agent in the entity's name.
2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.	Collateralized, with securities held by the pledging financial institution's trust department or agent in the entity's name.
3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name (this includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).	Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

F. Inventories

The district accounts for the inventory of the general and food service funds using the consumption method. Under this method inventories are initially recorded as assets and the recognition of the expenditure is deferred until the period in which the inventories are actually consumed. Donated food commodities are reported in the governmental funds as Food Service commodity inventory when received. Inventories are valued on the FIFO (first in first out) cost basis.

The valuation of food service commodity inventory is established by the USDA and provided to the district. The value of the commodities inventory at June 30, 2014 was \$4,748.

G. Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings and improvements, and vehicles and equipment of the district are depreciated using the straight line method over the following estimated useful lives.

Assets	Years
Permanent Buildings	50
Temporary or Wood Structures	10
Playground Equipment	20
Vehicles - New	15
Vehicles – Used – Includes: Generators, Tractors, Pallet Stackers	*
Exception: Front-End Loaders	25
Copy Machines	6
Servers and Computer Hardware	5
Other Equipment – Includes: Food Service Equipment, Walk in Freezers Auto Scrubbers, Stage Tables	10

* Useful life on used vehicles is 15 years less (year of manufacture less year of purchase).

Land and Construction in Progress are not depreciated.

H. Compensated Absences

Vested or accumulated vacation leave is reported in the government-wide statement of net position. Compensation for unused vacation leave is granted to all 12-month employees upon termination of employment with the school district based on their current rate of pay. Twelve-month employees may carry forward unused leave not to exceed 5 days, which will be added to the accumulation for the current year. Vacation leave is earned as follows:

SERVICE	DAYS PER YEAR
0 – 11 Months	10
1 year through 5 years 11 months	14
6 years through 11 years 11 months	17
12 years through 14 years 11 months	20
15 years and above	22

Nine and ten month employees are entitled to three personal days per year, prorated to the length of the employee's work day, which may accumulate to a maximum of six days. On October 9, 2011 Teachers and OT/PT's (occupational therapists and physical therapists) negotiated a new contract which calculates their personal and sick leave benefits under new rules. Teachers and OT/PT's will receive three personal days per year which may accumulate to a maximum of six days, prorated to the length of the employee's work day. Teachers and OT/PT's may request payment for unused personal leave, based on contracted daily hours at their current salary step for each personal day accumulated. All other nine and ten month employees who request payment for unused personal leave will be paid at the current year's third step of the salary schedule in group two.

Sick leave benefits are provided to all employees who are employed for four or more hours per day. All twelve month employees receive 15 days per year. Teachers, OT/PT's, and all other nine and ten month employees, receive twelve days per year. Sick leave benefits are prorated on the basis of the number of months of employment for employees whose employment starts at other than the normal starting date. Under the prior Teacher and OT/PT contract, two categories of sick leave were established, Legacy Sick Leave and Sick Leave. Any unused accumulated sick leave at the end of the 2010-2011 school year was reclassified as Legacy Sick Leave. Employees who were employed prior to this date may have a balance of Legacy Sick Leave. Legacy Sick Leave benefits could accumulate up to a maximum of 180 days for regular district employees, and 246 days for administrators. Sick days taken during the 2011-2012 fiscal year and forward will be taken from the Legacy Sick Leave balance first, if available. When the employees Legacy Sick Leave balance is reduced to zero, the days will then come off of their Sick Leave balance. Starting with the 2012 contract, an employee's sick leave will be added to their Sick Leave category, not the Legacy Sick Leave. Any unused sick leave can accumulate year after year with unlimited accumulation. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits for regular employees. A liability has been recorded for Teachers and OT/PT's who have the option to sell back some or all of their next year's sick leave credit once they have accumulated a minimum of 65 days (Legacy and Sick Leave combined). Support staff also have this option once a minimum of 90 days (Legacy and Sick leave combined) has been accumulated. Employees who elect to sell back their sick leave days, over the 65/90 day minimum, will be paid for them at 50% of their current daily rate.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position and are paid out of the capital projects fund and general fund respectively. Bond premiums, discounts and issuance costs were generally recognized as long-term and amortized over the life of the bonds. With the implementation of GASB 65, bond issuance costs are now expensed as they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt 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 are reported as debt service expenditure.

J. Fund Balance and Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance spending priorities, minimum fund balance policies, and fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the Board of Education of the City of Fargo to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Minimum Fund Balance Policy:

The Board of Education of the City of Fargo established a 10% general fund carryover balance goal several years ago to help with financial stability. It substantially modified that goal to 15% and has surpassed it since fiscal year 2002. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district. The unassigned general fund balance of \$28,100,541 at June 30, 2014 represents 20.78% of annual general fund expenditures.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, permanent principal endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose and revenues restricted by enabling legislation.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School District Board of Directors. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.

Table continued on next page....

CONTINUED...

CLASSIFICATION	DEFINITION	EXAMPLES
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By business manager action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance. (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Non-spendable Fund Balances – consist of the following items at June 30, 2014:

General Fund (Major Fund) – Either in a nonspendable form or legally or contractually required to be maintained intact:

- (a) Inventory in the general fund is a nonspendable amount totaling \$127,887.

Capital Projects Fund (Major Fund) – Legally or contractually required to be maintained intact:

- (a) Contracts Receivable is a legally contracted long-term receivable with the Fargo Park District for their share of special assessments at several schools totaling \$2,662,140.

Special Revenue Fund – (Food Service) (Nonmajor Fund) – In a nonspendable form:

- (a) Inventory in the Special Revenue Fund – (Food Service), consists of non-commodity food and supplies that are nonspendable in an amount totaling \$9,322.

Restricted Fund Balances – consist of the following items at June 30, 2014:

Capital Projects Fund (Major Fund) – Restricted by enabling legislation.

- (a) Debt Service fund balance. This is legally restricted cash held by US Bank for the payment of Bond principal or interest due, or for construction costs incurred. \$3.
- (b) Capital Projects fund balance. This is restricted for construction of the Ed Clapp Elementary school and HVAC projects. \$25,873,170.

Debt Service Fund (Nonmajor Fund) – Restricted by enabling legislation.

- (a) Debt Service fund balance. This is legally restricted cash held by US Bank for the payment of Bond principal or interest due, or for construction costs incurred. \$13.

Assigned Fund Balances – consist of the following items at June 30, 2014:

Special Revenue Fund – (Food Service) (Nonmajor Fund) – Spendable or available for appropriation but is used only for Food Service purposes:

- (a) Food Service assigned balance of \$2,678,198. This is used only for Food Service purposes.

Unassigned Fund Balance – consists of the following item at June 30, 2014:

General Fund (Major Fund) – Available for any legal purpose used to finance operating expenditures:

- (a) The unassigned fund balance amount of \$28,100,541 is available to fund all other operating expenditures not already classified in other areas in accordance with governmental accounting standards as promulgated by the Governmental Accounting Standards Board.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

In June of 2012 the GASB approved Statement No. 63. This statement changes how governments will organize the presentation of statements of financial position (the prior government-wide statements of net assets and the governmental funds balance sheet.) Under the new standards, financial statements will now include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities. Also net position will now be reported instead of net assets. The new reporting of deferrals is done to show transactions that have occurred in the current or prior periods but are actually related to future periods. Net position is the difference between the combination of assets and deferred outflows of resources, and the combination of liabilities and deferred inflows. Under Statement 63 the net position is now displayed in three components:

- (1) Net investment in capital assets
- (2) Restricted
- (3) Unrestricted

By presenting deferrals separately from assets and liabilities, the statement of net position will provide users with information about transactions that have already occurred but should be recognized as revenues or expenses in future periods.

Net Position:

The Board of Education of the City of Fargo implemented the provisions of GASB Statement no. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2013.

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

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

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture requirements for our capital projects and debt service.

Unrestricted net position is primarily unrestricted amounts related to the general fund. The unrestricted net position is available to meet the district's ongoing obligations.

K. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transfers are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The school board amended the school district budget for 2014 as follows:

	REVENUES		
	Original Budget	Amendment	Amended Budget
General Fund	\$141,858,593	\$3,352,320	\$145,210,913

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
General Fund	\$136,834,517	\$4,730,645	\$141,565,162

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits:

In accordance with North Dakota Statutes, the Fargo Public School District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At the year ended June 30, 2014, the Fargo Public School District's carrying amount of all deposits, (less investments of \$4,000,000 and \$1,130 in petty cash held at the schools), was \$72,858,451 and the bank balances were \$73,864,973. Of the bank balances, \$1,616,934 was covered by Federal Depository Insurance. The remaining balances of \$72,248,039 were collateralized with securities held by the pledging financial institution's agent in the school district's name.

Additional information on deposits is located in Note 1E.

Investments:

As of June 30, 2014 the school district had the following investments and maturities:

Investment Type	Fair Value	Maturity
Repurchase Agreement-Starion	\$4,000,000	339 Days
Total	\$4,000,000	

Interest Rate Risk:

The school district does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk:

State statutes authorize the school district to invest in:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation or by the state.
- (4) Obligations of the state.
- (5) Certificates of deposit fully insured or guaranteed by the federal deposit insurance corporation and placed for the benefit of the public depositor by a public depository through an appropriate reciprocal deposit placement service as determined by the commissioner of financial institutions.

As of June 30, 2014, the school district had certificates of deposits totaling \$4,000,000.

Concentration of Credit Risk:

The school district does not have a limit on the amount the district may invest in any one issuer. The Fargo Public School District's current bond rating by Moody's is Aa3.

NOTE 4: TAXES RECEIVABLE

Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable since all delinquent property is sold after five years to satisfy the tax lien.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes due. The first installment is due March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the October 15th due date, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account from other school districts and organizations for goods and services furnished by the school district.

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

NOTE 6: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of state and federal dollars.

NOTE 7: DUE FROM COUNTY TREASURER

The amount due from the county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30.

NOTE 8: CONTRACTS RECEIVABLE

Contracts receivable represent contracts with the Fargo Park District for improvements of district property. The following is a summary of contracts receivable:

\$3,400,000 Contract Receivable for 2009 Lease Revenue Bonds, due in annual installments of \$215,000 to \$315,000 through May 2024, interest at 4.4%-5.2%.	\$2,600,000
\$1,573,724 Contract Receivable for Kennedy Elementary Specials, due in annual installments of \$30,357 to \$31,784 through 2016; interest at 4.70%.	<u>62,140</u>
Total Contracts Receivable	<u>\$2,662,140</u>

NOTE 9: INVENTORIES

Inventories consist of supplies and materials of the general fund and food and supplies for the food service fund. Reported inventories are equally offset by a nonspendable fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets

NOTE 10: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2014.

Governmental Activities:	Balance July 1	Additions	Deletions	Balance June 30
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,395,198	\$ -	\$ -	\$ 11,395,198
Construction in Progress	516,524	9,678,190	313,300	9,881,414
Total capital assets, not depreciated	\$ 11,911,722	\$ 9,678,190	\$313,300	\$ 21,276,612
<i>Capital assets, being depreciated:</i>				
Buildings and Improvements	\$210,909,376	\$ 313,300	\$ -	\$211,222,676
Vehicles and Equipment	8,627,623	560,962	149,116	9,039,469
Total capital assets, being depreciated	\$219,536,999	\$874,262	\$149,116	\$220,262,145
Less accumulated depreciation for:				
Buildings and Improvements	\$ 47,555,092	\$ 4,419,561	\$ -	\$ 51,974,653
Vehicles and Equipment	5,480,019	494,313	84,035	5,890,297
Total accumulated depreciation	\$ 53,035,111	\$ 4,913,874	\$ 84,035	\$ 57,864,950
Total capital assets being depreciated, net	\$166,501,888	\$(4,039,612)	\$ 65,081	\$162,397,195
Governmental activities capital assets, net	\$178,413,610	\$ 5,638,578	\$378,381	\$183,673,807

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

NOTE 11: BOND COST/PREMIUM

The following is a summary of changes in bond premiums for the year ended June 30, 2014.

	Balance July 1	Bond Cost Amortization	Balance June 30
2004B (28M) Limited Tax Bond	\$ 326,221	\$326,221	\$ -
2005 J-Refunding (98 Const)	133,655	33,413	100,242
2007 10M Limited Tax Bond	39,057	2,790	36,267
2008 33M Limited Tax Bond	104,758	8,058	96,700
2009 3.4M Lease Revenue Bond	36,033	3,276	32,757
2009B 19.650M Lease Rev Bond	194,456	27,780	166,676
2012 24.615M Limited Tax Bond	674,954	67,495	607,459
Net Bond Premiums	\$1,509,134	\$469,033	\$1,040,101

NOTE 12: BOND DISCOUNT

The following is a summary of change in bond discount for the year ended June 30, 2014.

	Balance July 1	Addition	Bond Discount Amortization	Balance June 30
2014B (26.97M) Limited Tax Bond	\$ -	\$57,888	\$ -	\$57,888

A net amount for depreciation and amortization was charged to functions/programs of the school district as follows:

Governmental Activities:	Depreciation	Bond Premium	Totals
Regular Instruction	\$1,981,423	\$(208,562)	\$1,772,861
Special Education	682,515	(67,850)	614,665
Vocational Education	151,541	(16,628)	134,913
Adult Education	19,265	(2,114)	17,151
Pupil Services	117,065	(12,845)	104,220
Instructional Staff Services	145,179	(15,930)	129,249
General Administrative Services	119,063	(7,649)	111,414
School Administrative Services	284,764	(29,778)	254,986
Business Services	109,224	(9,575)	99,649
Operations and Maintenance	704,918	(55,954)	648,964
Pupil Transportation Services	67,162	(7,369)	59,793
Extracurricular	228,105	(14,511)	213,594
School Food Services	295,586	(19,383)	276,203
Community Services	8,064	(885)	7,179
Total Depreciation / Amortization	\$4,913,874	\$(469,033)	\$4,444,841

NOTE 13: ACCOUNTS PAYABLE

Accounts payable consist of amounts on open account for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

NOTE 14: SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consist of salaries earned by employees but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from employees' salaries as of June 30.

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

NOTE 15: CONTRACTS PAYABLE

Contracts payable consist of retainages payable earned on various construction contracts at June 30 but not paid until after year-end.

NOTE 16: OPERATING LEASES RECEIVABLE

The school district, as lessor, has leased a gymnastics facility at South High School, to American Gold, the YMCA and Moorhead Public School District. The school district has also leased office space in the District Administration Building to the Fargo Public Schools Federal Credit Union and is leasing an internet license block to 702 Communications Company for wireless internet services. SEEC (Southeast Education Cooperation) leases space in Agassiz School for use as training center for enhanced educational services for numerous schools in the southeastern North Dakota region and Head Start leases space at Madison Elementary for educational support for 3 and 4 year olds who are Head Start eligible. School District property is being leased to the City of Fargo for use as a depository and pick-up for recycling containers and District property is also being leased to MinnKota Enviro-Services Inc. for a recycling facility. Leases receivable are as follows:

	Year Ending June 30th			
	2015	2016	2017	TOTAL
American Gold Gymnastics	\$15,896	\$ -	\$ -	\$ 15,896
YMCA	1,250	-	-	1,250
Credit Union	2,729	2,729	455	5,913
City of Fargo Recycling	7,650	-	-	7,650
SENDCAA Head Start	2,814	-	-	2,814
702 Communications	2,250	-	-	2,250
Moorhead Public Schools	8,000	4,667	-	12,667
MinnKota Enviro-Services	3,411	-	-	3,411
SEEC (Southeast Education Coop.)	17,250	17,767	18,301	53,318
TOTAL	\$61,250	\$25,163	\$18,756	\$105,169

NOTE 17: LEASES PAYABLE

Operating Leases – The school district has entered into various lease agreements. The Krider building has been leased from T.S. McLaughlin for vehicle storage and maintenance and a portion of the building is used for our print shop. Riverwood Park is being leased for playing fields for football practices and non-varsity football games. To alleviate parking problems for our employees, the Fargo Public School leases from The Fargo Housing and Redevelopment Authority, twenty parking spaces next to our district office. Also, to alleviate parking problems, approximately 33 acres of the support site for Trollwood Performing Arts Center has been leased to be used as overflow parking during performances. Total costs for all leases were \$120,434 for the year ended June 30, 2014. The future minimum lease payments are as follows:

Year Ending June 30	Krider Building	Riverwood Park	Fargo Housing Authority	Total
2015	\$114,579	\$ 323	\$7,200	\$122,102
2016	114,579	323	-	114,902
2017	57,289	324	-	57,613
2018	-	324	-	324
2019	-	324	-	324
2020-2024	-	1,617	-	1,617
2025-2028	-	754	-	754
TOTAL	\$286,447	\$3,989	\$7,200	\$297,636

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

NOTE 18: LONG-TERM DEBT

Changes in Long-Term Liabilities – During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt.

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
G.O. Bonds Payable	\$65,030,000	\$26,970,000	\$ 3,665,000	\$ 88,335,000	\$4,485,000
Special Assessments	91,134	552,322	63,964	579,492	65,327
Building Authority Rev. Bonds	20,715,000	-	2,560,000	18,155,000	2,720,000
Compensated Absences	479,983	1,067,804	1,074,934	472,853	-
Sick Leave Longevity Payable	4,045,022	-	3,588,868	456,154	-
PTO Payable	215,765	163,855	36,101	343,519	-
Paid Leave System Payable	778,376	1,383,710	668,055	1,494,031	-
TOTAL	\$91,355,280	\$30,137,691	\$11,656,922	\$109,836,049	\$7,270,327

Debt payable at June 30, 2014 is comprised of the following individual issues:

Bonds Payable:

\$24,615,000 Limited Tax Refunding Bonds, Series 2012, due in annual installments of \$1,265,000 to \$2,965,000 through May 2023; interest at 2.00% to 2.25%.	\$21,430,000
\$26,970,000 Limited Tax Bond, Series 2014 due in annual installments of \$200,000 to \$4,445,000 through August of 2033; Interest at 3.25% to 4.0%	26,970,000
\$10,000,000 Limited Tax Bond Series 2007, due in annual installments of \$3,890,000 to \$6,110,000 through May 2027; interest at 4.3%.	10,000,000
\$33,000,000 Limited Tax Bond Series 2008, due in annual installments of \$1,660,000 to \$5,580,000 through May 2026; interest at 4.0% to 5.0%.	<u>29,935,000</u>
Total Bonds Payable	<u>\$88,335,000</u>

Building Authority Revenue Bonds:

\$19,650,000 Lease Revenue Refunding Bonds, Series 2009B, due in annual installments of \$1,700,000 to \$2,715,000 through May 2020; interest at 3.125% to 4.0%.	\$13,075,000
\$23,005,000 First Mortgage Revenue Refunding Bonds of 2005, Refunding of 1997B Bonds, due in annual installments of \$430,000 to \$460,000 through May 2017; interest at 4.0%.	1,340,000
\$1,515,000 Lease Revenue Refunding Bonds, Series 2013; due in annual installments of \$375,000 to \$385,000 through November 2016; interest at .45% to .60%.	1,140,000
\$3,400,000 Lease Revenue Bonds of 2009; due in annual installments of \$215,000 to \$315,000 through May 2024; interest at 4.4% to 5.2%.	<u>2,600,000</u>
Total Building Authority Revenue Bonds	<u>\$18,155,000</u>

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

Special Assessments:

Special Assessments Payable represents special assessments levied by the cities of Fargo, ND and Moorhead, MN against the school district for the District's share of the benefit derived from city funded improvements. The special assessments payable are due in annual installments of \$34,370 to \$66,753 through 2029; with interest at 4.7% to 6.0%.

\$ 579,492

Total Long-Term Debt

\$107,069,492

The annual long-term debt service requirements at June 30, 2014, are as follows:

GOVERNMENTAL ACTIVITIES				
Year Ending June 30	General Obligation Bonds		Building Authority Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 4,485,000	\$ 2,966,820	\$ 2,720,000	\$ 666,569
2016	4,100,000	3,078,894	2,940,000	584,895
2017	4,215,000	2,958,494	3,145,000	493,533
2018	4,335,000	2,836,494	2,480,000	391,362
2019	4,465,000	2,708,331	2,720,000	291,202
2020 – 2024	24,725,000	11,395,994	4,150,000	334,857
2025 – 2029	21,285,000	5,841,642	-	-
2030 – 2034	20,725,000	1,943,446	-	-
TOTALS	\$88,335,000	\$33,730,115	\$18,155,000	\$2,762,418

GOVERNMENTAL ACTIVITIES		
Year Ending June 30	Special Assessments	
	Principal	Interest
2015	\$ 65,327	\$33,854
2016	66,753	30,365
2017	34,970	26,809
2018	34,370	24,747
2019	34,370	22,684
2020 – 2024	171,851	82,489
2025 – 2029	171,851	30,935
TOTALS	\$579,492	\$251,883

Year Ending June 30	Total Long-Term Debt	
	Principal	Interest
2015	\$ 7,270,327	\$ 3,667,243
2016	7,106,753	3,694,154
2017	7,394,970	3,478,836
2018	6,849,370	3,252,603
2019	7,219,370	3,022,217
2020 – 2024	29,046,851	11,813,340
2025 – 2029	21,456,851	5,872,577
2030 – 2034	20,725,000	1,943,446
TOTALS	\$107,069,492	\$36,744,416

NOTE 19: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent Food Service commodity inventory, lunch credits and amounts reported for uncollected taxes receivable and uncollected contracts receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, commodity inventory, lunch credits, uncollected taxes receivable and uncollected contracts receivable are measurable but not available. Deferred inflows of resources in the Statement of Net position represent Food Service commodity inventory, and lunch credits.

NOTE 20: PENSION PLANS

1. North Dakota Teachers Fund for Retirement TFFR

The school district contributes to the North Dakota Teachers Fund for Retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on their website, www.nd.gov/rio, or may be obtained by writing to Teacher's Fund for Retirement, PO Box 7100, Bismarck, North Dakota, 58507-7100.

Plan members are required to contribute 9.75% of their annual covered salary and the school district is required to contribute 10.75% of the teacher's salary. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to TFFR for the fiscal years ending June 30, 2014, 2013 and 2012 were \$6,792,660, \$6,546,856 and \$5,229,708 respectively, equal to the required contributions for the year.

2. North Dakota Public Employees Retirement System

The school district contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 7% of their annual salary. The school district is required to contribute 8.26% of the employee's salary which consists of 7.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to NDPERS for the years ending June 30, 2014, 2013 and 2012 were \$1,614,930, \$1,309,073, and \$1,075,582 respectively, equal to the required contributions for the year.

NOTE 21: RISK MANAGEMENT

The Board of Education of the City of Fargo is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

BOARD OF EDUCATION OF THE CITY OF FARGO
Notes to the Financial Statements - Continued

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The school district pays an annual premium to NDRIF for its general liability, automobile insurance coverage and inland marine. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and two million dollars per occurrence for automobile coverage. Mobile equipment and portable property is limited to losses of \$2,506,171 for scheduled music property and \$13,178,732 for computerized business equipment.

The State Bonding Fund currently provides the school district with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The school district has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

The school district has retained risk for employee health and dental insurance up to a maximum of \$200,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$1,465,670. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the past two years are as follows:

	Year Ended 6-30-14	Year Ended 6-30-13
Unpaid Claims July 1	\$ 1,185,185	\$ 1,063,554
Incurred Claims Including IBNR's	11,504,592	10,650,239
Less: Claims Paid	11,224,107	10,528,608
Unpaid Claims June 30	\$ 1,465,670	\$ 1,185,185

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 22: CONSTRUCTION COMMITMENTS

The school district had ten construction projects remaining as of June 30, 2014. Six schools are in the process of having major HVAC projects completed which include the installation of air conditioning in buildings that were never originally designed for air conditioning when built, along with upgrades to their heating systems. The Centennial school gym addition is nearing completion and the new Ed Clapp elementary school is just in the beginning stages of construction. The North High pool is in the process of having a new heating system installed and Longfellow school is getting a new roof. At year-end the district's commitments with contractors were as follows:

Project	Contract	Completed	Retainage	Commitment
Centennial Gym	\$ 2,314,562	\$2,308,712	\$32,356	\$ 38,206
North High Pool HVAC	342,500	214,529	20,000	147,971
Longfellow Roofing	179,466	109,544	9,993	79,915
Clara Barton HVAC	1,607,559	898,493	76,326	785,392
Lewis & Clark HVAC	2,056,883	1,055,161	90,003	1,091,725
McKinley HVAC	1,608,322	989,939	86,341	704,724
Madison HVAC	1,804,564	874,832	72,788	1,002,520
Horace Mann HVAC	1,644,177	831,694	70,199	882,682
Roosevelt HVAC	1,754,739	1,068,136	93,781	780,384
Ed Clapp Elementary	15,639,906	1,854,447	79,905	13,865,364

NOTE 23: POST-RETIREMENT BENEFITS

GROUP HEALTH PLAN

In addition to the pension benefits described in Note 20, the Board of Education of the City of Fargo provides post-retirement health care benefits, in accordance with Administrative Policy 5450, to all full time employees who retired prior to June, 2001. To be eligible for the plan an employee who retires before the age of 65 and after their 55th birthday must have 15 years of continuous service prior to the date of retirement. An employee who reaches the Rule of 85 as defined by Teacher's Fund for Retirement or Public Employee Retirement System prior to his/her 55th birthday will be treated in the same manner as employees who have reached the age of 55 for the purposes of Administrative Policy 5450. The employee may retain membership in the district's group health and life insurance plans until age 65 with premiums paid by the district with the retiree contributing to the cost of the premiums at the employee participation level in effect for all active employees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Currently only 1 retiree remains covered under the plan and by October 2014 it will be eliminated. The school district has estimated a cost of \$4,000 for the post-employment benefit for the retiree's health plan and \$2,000 for workers compensation coverage.

EARLY RETIREMENT AGREEMENT

The Board of Education of the City of Fargo offers early retirement payments to employees under Administrative Policy 5452 "Longevity Recognition Payment". Under Administrative Policy 5452 all full time or part time benefitted employees are eligible for a one-time payment based on the number of accumulated legacy sick leave days the employee has at the time of their termination of employment. The two criteria required for the payment are:

1. The employee will be eligible to participate in this plan after 15 years of continuous service to the Fargo Public Schools in a benefitted position.
2. The employee has been determined eligible for normal retirement benefits as defined by either NDPERS or TFFR. Normal retirement benefits are defined as being age 65 or older, or having met the rule of 85.

The second criteria is a change from the past Administrative Policy. The old policy allowed employees to be age 55 or older, or having met the rule of 85. The new policy, which was revised in November 2013, requires the employee to be age 65 or older. This has resulted in many employees not meeting the new criteria and a large reduction in our long-term sick leave longevity payable.

The payment will be computed based on the employee's number of accumulated legacy sick leave days at the time of termination of employment in the following manner:

1. At 15 years of service, assuming all eligibility criteria have been met, the employee will receive 80% of this payment.
2. For each subsequent year, the payment will increase by 2% through the 25th year of service, at which time the employee will receive 100% of this payment.
3. Beginning in 2016 all payments for those with 15 years of service and beyond will be \$50.00 per legacy sick day.
4. The specific rate for the coming years will be structured as indicated:

2014-2015	\$150.00 per legacy sick day.
2015-2016	\$100.00 per legacy sick day.
2016-Beyond	\$ 50.00 per legacy sick day.
5. Grandfather clause: Any benefitted employee who is eligible for full retirement benefits through NDPERS or TFFR as of 7/1/2013 will have payments calculated at the 2013-2014 level of \$200.00 per day upon retirement from the District.

BOARD OF EDUCATION OF THE CITY OF FARGO

Notes to the Financial Statements - Continued

For the year ended June 30, 2014 the school district had 49 employees who received this benefit at a cost to the school district of \$1,429,461.

NOTE 24: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2014:

Fund	Transfer In	Transfer Out	Explanation
General Fund	\$ 1,063,613	\$ 7,274,597	To finance programs in other funds
Student Activities	3,809,620	-	Eliminate deficits
Food Service	71,626	260,000	Reimburse expenses paid by district
Debt Service (40)	6,032,400	-	Bond principal & interest transfers
District Building Authority-Debt service	2,829,583	-	Bond principal & Interest transfers
Capital Projects Fund	485,200	6,757,445	Bond principal & Interest transfers
Total Transfers	\$14,292,042	\$14,292,042	

Transfers are used to move revenues from the fund with collection authorization to the debt service funds as principal and interest payments become due, to close out old debt service funds and to move unrestricted fund revenues to finance various programs that the school district must account for in other funds.

NOTE 25: CONTINGENT LIABILITIES

The School District is a defendant in various lawsuits incident to its operations. In the opinion of the School District Counsel and management, such claims against the District not covered by insurance would not materially affect the financial condition of the School District.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Budgeted Amounts		2014 Actual Amounts	Variance With	2013
	Original	Final		Final Budget Positive (Negative)	
Revenues:					
Property Taxes	\$ 39,399,650	\$ 39,709,835	\$ 40,408,873	\$ 699,038	\$ 51,843,511
Other Local Sources	2,541,075	4,160,940	3,931,680	(229,260)	3,748,422
State Sources	92,229,280	92,832,351	91,190,111	(1,642,240)	70,892,000
Federal Sources	7,498,588	8,317,787	7,499,358	(818,429)	8,643,839
Other Sources	190,000	190,000	226,615	36,615	159,651
Total Revenues	\$ 141,858,593	\$ 145,210,913	\$ 143,256,637	\$ (1,954,276)	\$ 135,287,423
Expenditures:					
Instruction:					
Regular	\$ 66,468,401	\$ 69,268,719	\$ 64,708,323	\$ 4,560,396	\$ 65,722,668
Special Education	20,930,492	21,616,397	21,050,947	565,450	20,157,808
Vocational Education	5,291,906	5,150,711	5,158,907	(8,196)	4,688,374
Adult Education	717,109	726,880	655,834	71,046	669,828
Total Instruction	\$ 93,407,908	\$ 96,762,707	\$ 91,574,011	\$ 5,188,696	\$ 91,238,678
Support Services:					
Pupil Services	\$ 4,219,150	\$ 4,177,212	\$ 3,985,241	\$ 191,971	\$ 3,594,298
Instructional Staff Services	4,898,482	5,194,824	4,942,322	252,502	5,287,464
General Administration Services	2,392,195	2,467,798	2,373,137	94,661	2,335,197
School Administration Services	9,054,330	9,345,702	9,238,871	106,831	8,549,585
Business Services	3,216,298	3,021,699	2,970,763	50,936	2,416,087
Operations and Maintenance	17,099,486	17,975,312	17,357,834	617,478	12,991,753
Pupil Transportation Services	2,064,800	2,133,170	2,286,381	(153,211)	2,017,135
Extracurricular	196,800	212,550	247,410	(34,860)	153,919
Community Services	285,068	274,188	274,508	(320)	327,724
Total Support Services	\$ 43,426,609	\$ 44,802,455	\$ 43,676,467	\$ 1,125,988	\$ 37,673,162
Debt Service:					
Principal Retirement	\$ -	\$ -	\$ -	\$ -	\$ 1,846,872
Total Expenditures	\$ 136,834,517	\$ 141,565,162	\$ 135,250,478	\$ 6,314,684	\$ 130,758,712
Excess of Revenues Over (Under) Expenditures	\$ 5,024,076	\$ 3,645,751	\$ 8,006,159	\$ 4,360,408	\$ 4,528,711
Other Financing Sources (Uses):					
Sale of Capital Assets	\$ 20,000	\$ 20,000	\$ 13,203	\$ (6,797)	\$ 723,965
Transfers In	414,465	1,910,716	1,063,613	(847,103)	1,061,392
Transfers Out	(7,383,000)	(7,416,100)	(7,274,597)	141,503	(6,606,783)
Total Other Financing Sources and Uses	\$ (6,948,535)	\$ (5,485,384)	\$ (6,197,781)	\$ (712,397)	\$ (4,821,426)
Net Change in Fund Balances	\$ (1,924,459)	\$ (1,839,633)	\$ 1,808,378	\$ 3,648,011	\$ (292,715)
Fund Balance - July 1	\$ 26,420,050	\$ 26,420,050	\$ 26,420,050	\$ -	\$ 26,712,765
Fund Balance - June 30	\$ 24,495,591	\$ 24,580,417	\$ 28,228,428	\$ 3,648,011	\$ 26,420,050

The accompanying notes to the required supplementary information are an integral part of this financial statement.

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC 57-15-31.1.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY
 For the Year Ended June 30, 2014

	Balance 7-1-13	Revenue	Transfers In	Other Financing Sources	Other Transfers Out	Expenditures	Balance 6-30-14
(10) General Fund	\$ 26,420,050	\$ 143,256,637	\$ 1,063,613	\$ 13,203	\$ 7,274,597	\$ 135,250,478	\$ 28,228,428
Special Revenue Funds:							
(50) Food Service	\$ 2,913,400	\$ 5,973,607	\$ 71,626	\$ 2,500	\$ 260,000	\$ 6,013,613	\$ 2,687,520
(60) Student Activities	-	445,151	3,809,620	-	-	4,254,771	-
Total Special Revenue Funds	\$ 2,913,400	\$ 6,418,758	\$ 3,881,246	\$ 2,500	\$ 260,000	\$ 10,268,384	\$ 2,687,520
Debt Service Funds:							
(40) District Building Authority:							
Project 000	\$ -	\$ -	\$ 6,032,400	\$ -	\$ -	\$ 6,032,400	\$ -
(F) (Project 004) - 13 Lease Revenue Bonds	-	-	14,077	-	-	14,077	-
(G) (Project 007) - 09 Lease Revenue Bonds	-	-	381,744	-	-	381,744	-
(K) (Project 016) - 09 Lease Revenue Bonds	-	14	2,090,460	-	-	2,090,463	11
	-	2	343,302	-	-	343,302	2
Total Building Authority Debt Service	\$ -	\$ 16	\$ 2,829,583	\$ -	\$ -	\$ 2,829,586	\$ 13
Total Debt Service Funds	\$ -	\$ 16	\$ 8,861,983	\$ -	\$ -	\$ 8,861,986	\$ 13
Capital Projects Funds:							
(30-39) District Building Authority:							
(J) (Project 008) 05 Rfdg (98 Const)	\$ 8,515,082	\$ 7,759,508	\$ -	\$ 27,180,000	\$ 6,757,445	\$ 8,161,835	\$ 28,535,310
	-	3	485,200	-	-	485,200	3
Total Capital Projects Funds	\$ 8,515,082	\$ 7,759,511	\$ 485,200	\$ 27,180,000	\$ 6,757,445	\$ 8,647,035	\$ 28,535,313
Total Governmental Funds	\$ 37,848,532	\$ 157,434,922	\$ 14,292,042	\$ 27,195,703	\$ 14,292,042	\$ 163,027,883	\$ 59,451,274
Internal Service Fund:							
(80) Health Insurance	\$ 8,719,958	\$ 15,283,152	\$ -	\$ -	\$ -	\$ 16,480,610	\$ 7,522,500
Agency Funds:							
(70) Agency Fund	\$ -	\$ 5,272,741	\$ -	\$ -	\$ -	\$ 5,272,741	\$ -
(90) Evaluation Training Center	-	2,079,699	-	-	-	2,079,699	-
Total Agency Funds	\$ -	\$ 7,352,440	\$ -	\$ -	\$ -	\$ 7,352,440	\$ -
Total All Funds	\$ 46,568,490	\$ 180,070,514	\$ 14,292,042	\$ 27,195,703	\$ 14,292,042	\$ 186,860,933	\$ 66,973,774

BOARD OF EDUCATION OF THE CITY OF FARGO
 Fargo, North Dakota

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE AND DEBT SERVICE FUNDS
 June 30, 2014 (Summarized Comparative Totals at June 30, 2013)

	Food Service	Student Activities	Debt Service	Total	
				2014	2013
<u>ASSETS</u>					
Cash and Investments	\$ 2,920,136	\$ (7,616)	\$ -	\$ 2,912,520	\$ 3,062,355
Cash with Fiscal Agent	-	-	13	13	-
Receivables:					
Accounts	996	10,126	-	11,122	3,892
Intergovernmental	5,408	-	-	5,408	-
Inventories	14,070	-	-	14,070	11,344
Total Assets	\$ 2,940,610	\$ 2,510	\$ 13	\$ 2,943,133	\$ 3,077,591
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 36,937	\$ 2,510	\$ -	\$ 39,447	\$ 31,780
Salaries and Benefits Payable	79,205	-	-	79,205	8,630
Total Liabilities	\$ 116,142	\$ 2,510	\$ -	\$ 118,652	\$ 40,410
<u>Deferred Infows of Resources:</u>					
Food Service Commodity Inventory	\$ 4,748	\$ -	\$ -	\$ 4,748	\$ 3,593
Food Service Lunch Credits	132,200	-	-	132,200	120,188
Total Deferred Inflows of Resources	\$ 136,948	\$ -	\$ -	\$ 136,948	\$ 123,781
<u>Fund Balances:</u>					
Nonspendable:					
Inventories	\$ 9,322	\$ -	\$ -	\$ 9,322	\$ 7,751
Restricted:					
Debt Service	-	-	13	13	-
Assigned:					
Food Service	2,678,198	-	-	2,678,198	2,905,649
Total Fund Balances	\$ 2,687,520	\$ -	\$ 13	\$ 2,687,533	\$ 2,913,400
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,940,610	\$ 2,510	\$ 13	\$ 2,943,133	\$ 3,077,591

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE AND DEBT SERVICE FUNDS
For the Years Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Food Service	Student Activities	Debt Service	Total 2014	Total 2013
<u>Revenues:</u>					
Local Sources	\$ 3,539,280	\$ 445,151	\$ 16	\$ 3,984,447	\$ 4,003,743
State Sources	52,331	-	-	52,331	53,740
Federal Sources	2,381,996	-	-	2,381,996	2,329,335
Total Revenues	\$ 5,973,607	\$ 445,151	\$ 16	\$ 6,418,774	\$ 6,386,818
<u>Expenditures:</u>					
Current:					
Food Service Outlays	\$ 6,013,613	\$ -	\$ -	\$ 6,013,613	\$ 5,744,536
Extracurricular	-	4,254,771	-	4,254,771	4,148,559
Debt Service:					
Principal	-	-	5,810,000	5,810,000	5,875,000
Interest and Service Charges	-	-	3,051,986	3,051,986	4,123,200
Total Expenditures	\$ 6,013,613	\$ 4,254,771	\$ 8,861,986	\$ 19,130,370	\$ 19,891,295
Excess of Revenues Over (Under) Expenditures	\$ (40,006)	\$ (3,809,620)	\$ (8,861,970)	\$ (12,711,596)	\$ (13,504,477)
<u>Other Financing Sources (Uses):</u>					
Sale of District Items	\$ 2,500	\$ -	\$ -	\$ 2,500	\$ -
Proceeds of Debt Issuance	-	-	-	-	1,515,000
Refunded Bonds Redeemed	-	-	-	-	(1,497,473)
Transfers In	71,626	3,809,620	8,861,983	12,743,229	15,220,130
Transfers Out	(260,000)	-	-	(260,000)	(1,757,501)
Total Other Financing Sources and Uses	\$ (185,874)	\$ 3,809,620	\$ 8,861,983	\$ 12,485,729	\$ 13,480,156
Net Change in Fund Balances	\$ (225,880)	\$ -	\$ 13	\$ (225,867)	\$ (24,321)
Fund Balance - July 1	\$ 2,913,400	\$ -	\$ -	\$ 2,913,400	\$ 2,937,721
Fund Balance - June 30	\$ 2,687,520	\$ -	\$ 13	\$ 2,687,533	\$ 2,913,400

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Budgeted Amounts		2014 Actual	Variance With Final Budget Positive (Negative)	2013
	Original	Final			
<u>Revenues:</u>					
Local Sources	\$ 3,702,500	\$ 3,728,500	\$ 3,539,280	\$ (189,220)	\$ 3,587,140
State Sources	50,000	50,000	52,331	2,331	53,740
Federal Sources	2,250,000	2,250,000	2,381,996	131,996	2,329,335
Total Revenues	\$ 6,002,500	\$ 6,028,500	\$ 5,973,607	\$ (54,893)	\$ 5,970,215
<u>Expenditures:</u>					
Current:					
School Food Services	\$ 6,099,181	\$ 6,125,181	\$ 6,013,613	\$ 111,568	\$ 5,744,536
Excess (Deficiency) of Revenues Over Expenditures	\$ (96,681)	\$ (96,681)	\$ (40,006)	\$ 56,675	\$ 225,679
<u>Other Financing Sources (Uses):</u>					
Sale of District Items	\$ 500	\$ 500	\$ 2,500	\$ 2,000	\$ -
Transfers In	-	-	71,626	71,626	-
Transfers Out	(260,000)	(260,000)	(260,000)	-	(250,000)
Total Other Financing Sources and Uses	\$ (259,500)	\$ (259,500)	\$ (185,874)	\$ 73,626	\$ (250,000)
Net Change in Fund Balances	\$ (356,181)	\$ (356,181)	\$ (225,880)	\$ 130,301	\$ (24,321)
Fund Balance - July 1	\$ 2,913,400	\$ 2,913,400	\$ 2,913,400	\$ -	\$ 2,937,721
Fund Balance - June 30	\$ 2,557,219	\$ 2,557,219	\$ 2,687,520	\$ 130,301	\$ 2,913,400

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
STUDENT ACTIVITIES FUND
For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Budgeted Amounts		2014 Actual	Variance With Final Budget Positive (Negative)	2013
	Original	Final			
<u>Revenues:</u>					
Local Sources	\$ 427,000	\$ 427,000	\$ 445,151	\$ 18,151	\$ 416,603
<u>Expenditures:</u>					
Current:					
Extracurricular	\$ 4,352,000	\$ 4,385,100	\$ 4,254,771	\$ 130,329	\$ 4,148,559
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,925,000)	\$ (3,958,100)	\$ (3,809,620)	\$ 148,480	\$ (3,731,956)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 3,925,000	\$ 3,958,100	\$ 3,809,620	\$ (148,480)	\$ 3,731,956
Net Change in Fund Balances	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - July 1	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - June 30	\$ -	\$ -	\$ -	\$ -	\$ -

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND - FUNDS 40 & PROJECTS 000-018
For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Budgeted Amounts		2014 Actual	Variance With Final Budget Positive (Negative)	2013
	Original	Final			
<u>Revenues:</u>					
Local Sources	\$ -	\$ -	\$ 16	\$ 16	\$ -
<u>Expenditures:</u>					
<u>Debt Service:</u>					
Principal	\$ 5,810,000	\$ 5,810,000	\$ 5,810,000	\$ -	\$ 5,875,000
Interest and Service Charges	3,046,910	3,047,247	3,051,986	(4,739)	4,123,200
Total Expenditures	\$ 8,856,910	\$ 8,857,247	\$ 8,861,986	\$ (4,739)	\$ 9,998,200
Excess of Revenues Over (Under) Expenditures	\$ (8,856,910)	\$ (8,857,247)	\$ (8,861,970)	\$ (4,723)	\$ (9,998,200)
<u>Other Financing Sources (Uses):</u>					
Proceeds of Debt Issuance	\$ -	\$ -	\$ -	\$ -	\$ 1,515,000
Refunded Bonds Redeemed	-	-	-	-	(1,497,473)
Transfers In	8,856,910	8,857,247	8,861,983	4,736	11,488,174
Transfers Out	-	-	-	-	(1,507,501)
Total Other Financing Sources and Uses	\$ 8,856,910	\$ 8,857,247	\$ 8,861,983	\$ 4,736	\$ 9,998,200
Net Change in Fund Balances	\$ -	\$ -	\$ 13	\$ 13	\$ -
Fund Balance - July 1	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - June 30	\$ -	\$ -	\$ 13	\$ 13	\$ -

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND - FUNDS 30-39 & J (PROJECT 008)
For the Year Ended June 30, 2014 (Summarized Comparative Totals 2013)

	Budgeted Amounts		2014 Actual	Variance With Final Budget Positive (Negative)	2013
	Original	Final			
<u>Revenues:</u>					
Local Sources	\$ 7,103,656	\$ 7,103,656	\$ 7,759,511	\$ 655,855	\$ 8,787,425
<u>Expenditures:</u>					
Operations and Maintenance	\$ 10,000	\$ 10,000	\$ 2,675	\$ 7,325	\$ 4,312
Capital Outlay	-	-	7,572,703	(7,572,703)	45,089
<u>Debt Service:</u>					
Principal	665,000	665,000	599,443	65,557	3,657,429
Interest	145,200	145,200	107,477	37,723	201,302
Bond Costs	-	-	306,849	(306,849)	248,569
Total Expenditures	\$ 820,200	\$ 820,200	\$ 8,589,147	\$ (7,768,947)	\$ 4,156,701
Excess (Deficiency) of Revenues Over Expenditures	\$ 6,283,456	\$ 6,283,456	\$ (829,636)	\$ (7,113,092)	\$ 4,630,724
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	\$ 210,000	\$ 210,000	\$ 210,000	\$ -	\$ 840,570
Proceeds of Debt Issuance	-	-	26,970,000	26,970,000	24,615,000
Payment to the Refunded Bond Escrow Agent	-	-	-	-	(23,248,638)
Discount on the Sale of Bonds	-	-	(57,888)	(57,888)	-
Premium on the Sale of Bonds	-	-	-	-	708,702
Transfers In	485,200	485,200	485,200	-	455,000
Transfers Out	(8,538,609)	(6,757,440)	(6,757,445)	(5)	(8,372,238)
Total Other Financing Sources and Uses	\$ (7,843,409)	\$ (6,062,240)	\$ 20,849,867	\$ 26,912,107	\$ (5,001,604)
Net Change in Fund Balances	\$ (1,559,953)	\$ 221,216	\$ 20,020,231	\$ 19,799,015	\$ (370,880)
Fund Balance - July 1	\$ 8,515,082	\$ 8,515,082	\$ 8,515,082	\$ -	\$ 8,885,962
Fund Balance - June 30	\$ 6,955,129	\$ 8,736,298	\$ 28,535,313	\$ 19,799,015	\$ 8,515,082

BOARD OF EDUCATION OF THE CITY OF FARGO
Fargo North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor / Pass-Through Grantor / Program Title or Cluster Title	Federal CFDA Number		Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
<u>Passed through the State Department of Public Instruction:</u>			
National School Lunch Program	10.555	***	\$ 1,624,149
National School Lunch Program - Commodities	10.555	**	198,605
School Breakfast Program	10.553		331,270
Child Nutrition Cluster		***	<u>\$ 2,154,024</u>
Child and Adult Care Food Program	10.558		\$ 854
Summer School Food Program for Children	10.559		8,147
Food Distribution Program on Indian Reservations	10.567		4,304
Fresh Fruit and Vegetable Program	10.582		<u>156,824</u>
Total U.S. Department of Agriculture			<u>\$ 2,324,153</u>
<u>U.S. DEPARTMENT OF DEFENSE:</u>			
<u>Passed through the National Security Agency:</u>			
Language Grant Program	12.900		<u>\$ 56,482</u>
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
<u>Passed through the State Department of Public Instruction:</u>			
Adult Education - Basic Grants to States	84.002		\$ 193,684
Title I Grants to Local Education Agencies	84.010	***	3,149,826
Title I Cluster			<u>\$ 3,343,510</u>
Special Education_Grants to States	84.027	***	\$ 2,736,824
Special Education_Preschool Grants	84.173		51,199
Special Education Cluster			<u>\$ 2,788,023</u>
Education for Homeless Children and Youth	84.196		\$ 16,200
Twenty-First Century Community Learning Centers	84.287	***	959,514
English Language Acquisition State Grants	84.365		131,692
Improving Teacher Quality State Grants	84.367	***	843,124
<u>Passed through the University of South Dakota:</u>			
Investing in Innovation Fund - Scale-up Grants to States	84.396		7,500
<u>Passed through the Department of Career & Technical Education:</u>			
Career and Technical Education - Basic Grants to States	84.048		<u>235,995</u>
Total Department of Education			<u>\$ 8,325,558</u>
<u>U.S. DEPARTMENT OF HUMAN SERVICES:</u>			
<u>Passed through State Department of Public Instruction:</u>			
Refugee and Entrant Assistance-Discretionary Grants	93.576		<u>\$ 53,900</u>
Total Expenditures of Federal Awards			<u>\$ 10,760,093</u>

** - noncash assistance

*** - major program

NOTE 1: BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Board of Education of the City of Fargo under programs of the federal government for the year ended June 30, 2014. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Board of Education of the City of Fargo, it is not intended to and does not present the financial position or changes in net position of the Board of Education of the City of Fargo.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

STATE AUDITOR

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Local Government Division:
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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*

Governing Board
Board of Education of the City of Fargo
Fargo, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board of Education of the City of Fargo's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Education of the City of Fargo'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*.

BOARD OF EDUCATION OF THE CITY OF FARGO

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 - Continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 14, 2014

STATE AUDITOR

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STATE CAPITOL
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT OF INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

Board of Education of the City of Fargo
Fargo, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the Board of Education of the City of Fargo'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 the Board of Education of the City of Fargo's major federal programs for the year ended June 30, 2014. The Board of Education of the City of Fargo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Board of Education of the City of Fargo 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.

BOARD OF EDUCATION OF THE CITY OF FARGO

Report on Compliance for Each Major Federal Programs; Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 - Continued

Report on Internal Control Over Compliance

Management of the Board of Education of the City of Fargo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board of Education of the City of Fargo's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of the City of Fargo'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 weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Board of Education of the City of Fargo as of and for the year ended June 30, 2014, and have issued our report thereon dated October 14, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson
State Auditor

Fargo, North Dakota
October 14, 2014

