

METRO DEAF SCHOOL  
ST. PAUL, MINNESOTA

Financial Statements and  
Supplemental Information

Year Ended  
June 30, 2014

THIS PAGE INTENTIONALLY LEFT BLANK

METRO DEAF SCHOOL

Table of Contents

	Page
<b>INTRODUCTORY SECTION</b>	
<b>BOARD AND ADMINISTRATION</b>	1
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	2–4
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	5–14
<b>BASIC FINANCIAL STATEMENTS</b>	
Entity-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds	
Balance Sheet	17
Reconciliation of the Balance Sheet to the Statement of Net Position	18
Statement of Revenue, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	21
Notes to Basic Financial Statements	22–35
<b>SUPPLEMENTAL INFORMATION</b>	
General Fund	
Comparative Balance Sheet	36
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	37–38
Food Service Special Revenue Fund	
Comparative Balance Sheet	39
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	40
Building Company Special Revenue Fund	
Comparative Balance Sheet	41
Comparative Schedule of Revenue, Expenditures, and Changes in Fund Balances	42
<b>OTHER REQUIRED REPORTS</b>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43–44
Independent Auditor’s Report on Minnesota Legal Compliance	45
Uniform Financial Accounting and Reporting Standards Compliance Table	46–47

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

METRO DEAF SCHOOL

Board and Administration  
Year Ended June 30, 2014

**BOARD**

	<u>Board Position During 2013–2014</u>
Tracy Bell	President
Kelly Anderson	Vice President
Kristin Ryan	Treasurer
Dan Collins	Secretary
Laura Madsen	Member
Robert Westerhaus	Member

**ADMINISTRATION**

Dyan Sherwood	Executive Director
Melissa Sweetmilk	Dean of Students
Jennifer Sweat	Business Office and Facilities Manager

1HOUSE2HANDS, INC.

Board  
Year Ended June 30, 2014

**BOARD**

Kelley Cole	President
Michael Schwartz	Treasurer
Heath Aubin	Secretary
Erik Queen	Member

FINANCIAL SECTION

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITOR'S REPORT

To the Board and Management of  
Metro Deaf School  
St. Paul, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metro Deaf School (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School'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.

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page 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 School as of June 30, 2014, the respective changes in financial position, and the budgetary comparison for the General Fund 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the School.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

(continued)

### **Prior Year Comparative Information**

We have previously audited the School's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 17, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 School's internal control over financial reporting and compliance.

*Malloy, Montague, Karnowski, Radosevich & Co., P. A.*

Minneapolis, Minnesota  
December 16, 2014

THIS PAGE INTENTIONALLY LEFT BLANK

## METRO DEAF SCHOOL

### Management's Discussion and Analysis Fiscal Year Ended June 30, 2014

This section of Metro Deaf School's (the School) financial statements presents management's discussion and analysis (MD&A) of the School's financial performance during the year ended June 30, 2014. Please read it in conjunction with the other components of the School's financial statements.

#### **FINANCIAL HIGHLIGHTS**

The School's assets exceeded its liabilities at June 30, 2014 by \$1,563,252 (net position), which represents an increase of \$434,088 from the beginning of the year.

The School's General Fund, its primary operating fund, ended the year with a fund balance of \$932,068, an increase of \$232,964 from the beginning of the year.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements; and
- Supplemental information, consisting of individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

#### **Entity-Wide Financial Statements**

The entity-wide financial statements (Statement of Net Position and Statement of Activities) report information about the School as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the School's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any). All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide financial statements report the School's *net position* and how it has changed. Net position—the difference between assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any)—is one way to measure the School's financial health or *position*. Over time, increases or decreases in the School's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School requires consideration of additional non-financial factors, such as changes in the School's student population and the condition of the School's buildings and other facilities.

In the entity-wide financial statements, the School's activities are shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, and food services, are primarily financed with state aids.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds, rather than the School as a whole. Funds (such as the Food Service Special Revenue Fund) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds is presented as supplemental information.

Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law or by bond covenants.
- The School may establish other funds to control and manage money for particular purposes.

The School's basic services are reported in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Table 1 is a summarized view of the School's Statement of Net Position:

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and other assets	\$ 2,038,582	\$ 2,344,048
Capital assets, net of depreciation	<u>3,693,555</u>	<u>3,837,234</u>
<b>Total assets</b>	<b><u>\$ 5,732,137</u></b>	<b><u>\$ 6,181,282</u></b>
<b>Liabilities</b>		
Current and other liabilities	\$ 571,993	\$ 1,268,705
Long-term liabilities, including due within one year	<u>3,596,892</u>	<u>3,783,413</u>
<b>Total liabilities</b>	<b><u>\$ 4,168,885</u></b>	<b><u>\$ 5,052,118</u></b>
<b>Net position</b>		
Net investment in capital assets	\$ 96,663	\$ 53,821
Restricted for Building Company	534,521	376,239
Unrestricted	<u>932,068</u>	<u>699,104</u>
<b>Total net position</b>	<b><u>\$ 1,563,252</u></b>	<b><u>\$ 1,129,164</u></b>

The School's financial position is the product of many factors. For example, determination of the School's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

Table 2 presents a condensed version of the Change in Net Position of the School:

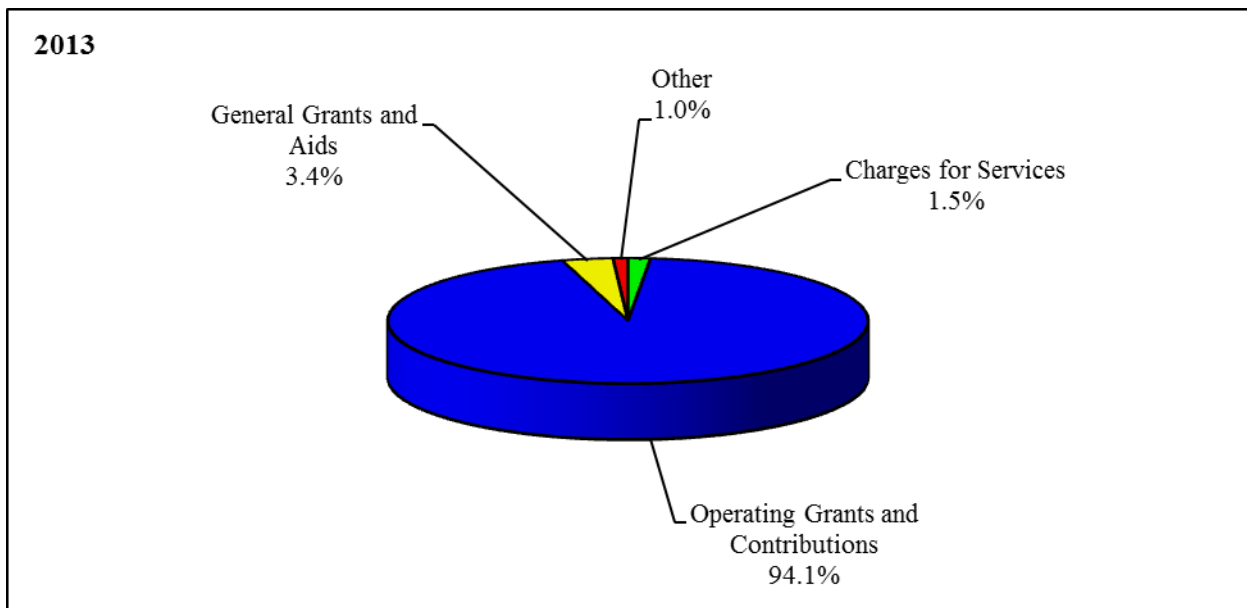
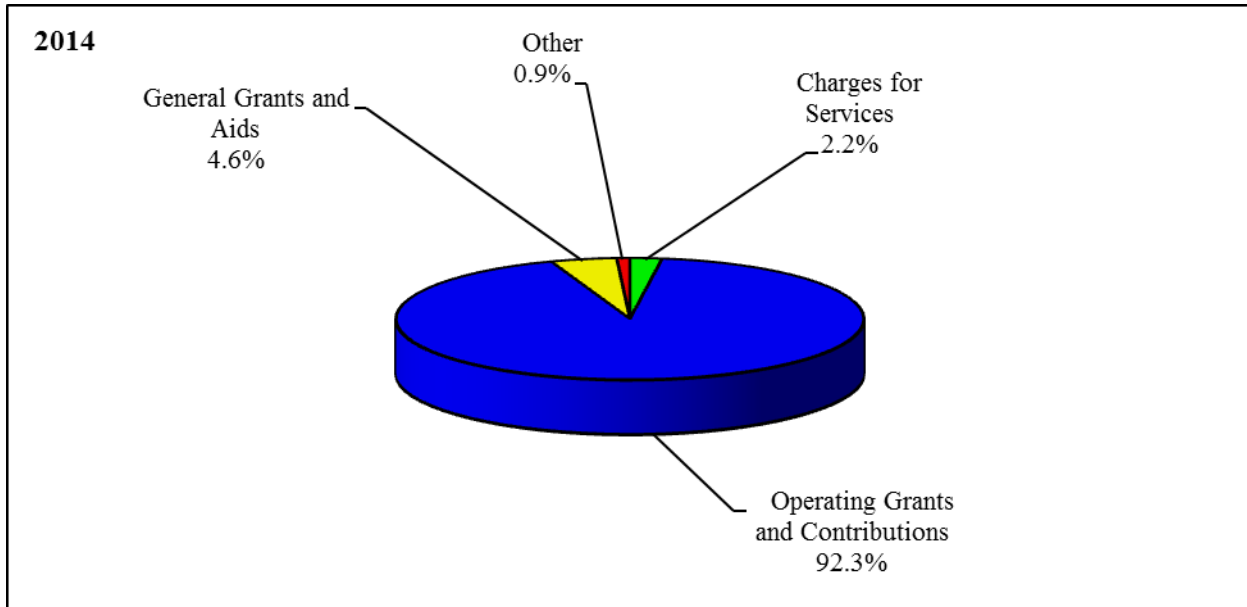
<b>Table 2</b>		
<b>Change in Net Position</b>		
<b>for the Years Ended June 30, 2014 and 2013</b>		
	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 120,515	\$ 68,709
Operating grants and contributions	4,958,888	4,374,464
General revenues		
General grants and aids	244,350	157,048
Other	48,066	45,449
<b>Total revenues</b>	<u>5,371,819</u>	<u>4,645,670</u>
<b>Expenses</b>		
Administration	243,600	240,425
District support services	249,064	241,309
Elementary and secondary regular instruction	185,484	126,746
Special education instruction	3,381,415	3,233,633
Instructional support services	6,026	3,602
Pupil support services	280,391	142,098
Sites and buildings	356,861	356,422
Fiscal and other fixed cost programs	38,138	30,959
Food service	49,045	37,209
Interest and fiscal charges	147,707	171,387
<b>Total expenses</b>	<u>4,937,731</u>	<u>4,583,790</u>
<b>Change in net position</b>	<u><u>\$ 434,088</u></u>	<u><u>\$ 61,880</u></u>

This statement is presented on an accrual basis of accounting and includes all of the governmental activities of the School. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal. Revenue for 2014 increased \$726,149 from the prior year, mainly due to the School earning more special education state aid.



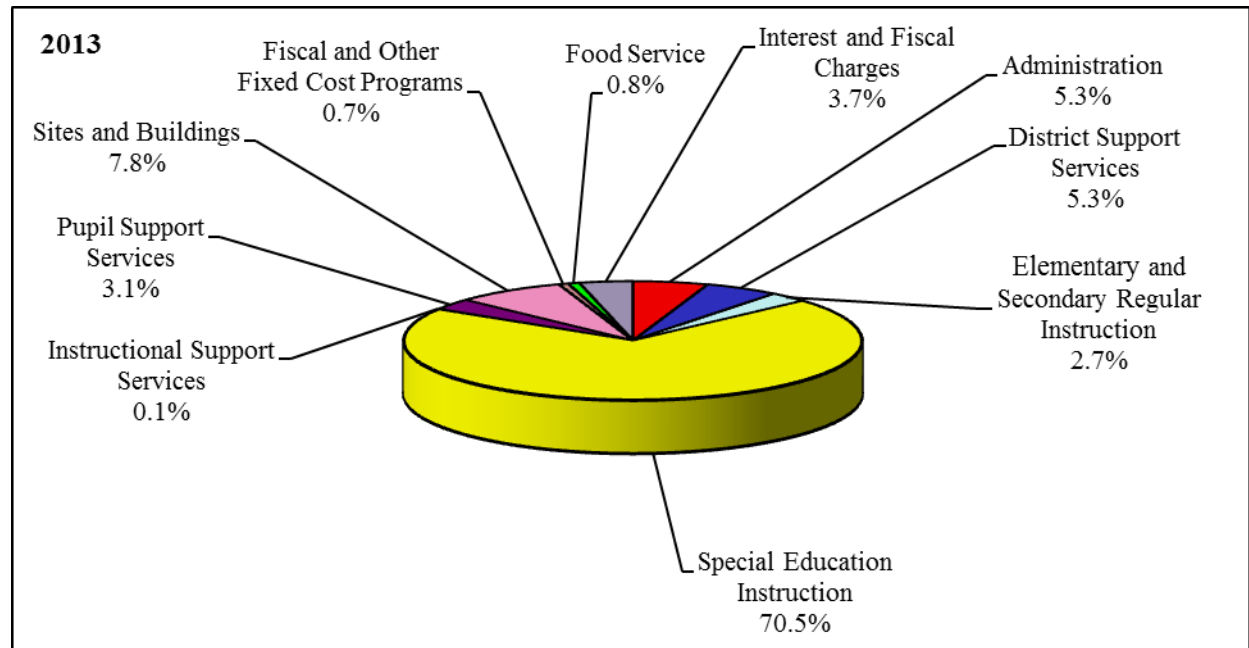
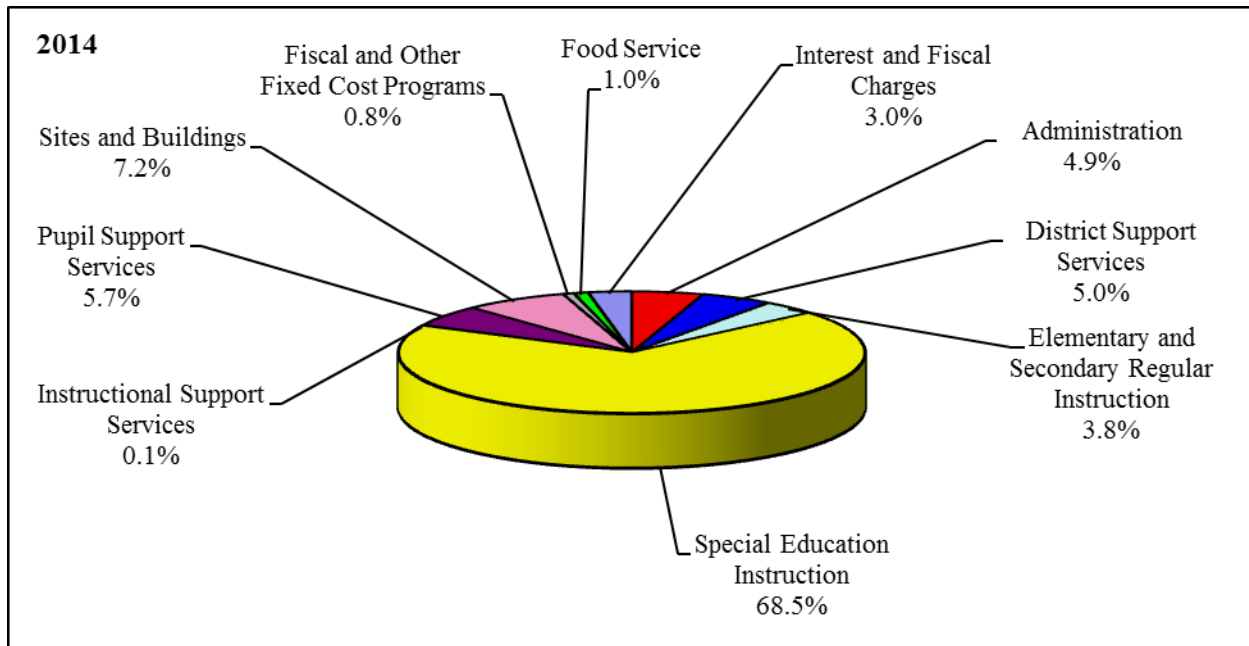
Figures A and B show further analysis of these revenue sources and expense functions:

**Figure A – Sources of Revenue for Fiscal Years 2014 and 2013**



The largest share of the School's revenue is received from the state, including most of the general and operating grants.

**Figure B – Expenses for Fiscal Years 2014 and 2013**



The School's expenses are predominately related to educating students. Approximately 68.5 percent of the School's expenses were in special education instruction. The School spent an additional 7.2 percent on leasing and maintaining its school site.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

### Governmental Fund Balances

The financial performance of the School as a whole is also reflected in its governmental funds. Table 3 shows the total fund balances of each of the School's governmental funds:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
General Fund	\$ 932,068	\$ 699,104	\$ 232,964
Special revenue funds			
Building Company	534,521	376,239	158,282
Food Service	—	—	—
Total governmental funds	<u>\$ 1,466,589</u>	<u>\$ 1,075,343</u>	<u>\$ 391,246</u>

### Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>
Revenue	<u>\$ 4,968,106</u>	<u>\$ 5,109,166</u>	<u>\$ 141,060</u>
Expenditures	<u>\$ 4,960,482</u>	<u>\$ 5,101,543</u>	<u>\$ 141,061</u>
Other financing sources (uses)	<u>\$ (7,624)</u>	<u>\$ (7,623)</u>	<u>\$ 1</u>

The School is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. The School has the ability to amend that budget for known significant changes in circumstances, such as: updated enrollment estimates, legislative funding changes, additional funding received from grants or other local sources, or staffing changes. The School increased budgeted revenue by \$141,060 during the current year, increased budgeted expenditures by \$141,061, and decreased budgeted transfers to the Food Service Special Revenue Fund by \$1. These budget amendments were made to reflect known changes in the School's operations. This resulted in no net change to the break-even budget.

Table 5 summarizes the operating results of the General Fund:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
			<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenues	\$ 5,109,166	\$ 5,331,376	\$ 222,210	4.3%	\$ 716,230	15.5%
Expenditures	5,101,543	5,089,685	\$ (11,858)	(0.2%)	\$ 363,364	8.0%
Other financing sources (uses)	<u>(7,623)</u>	<u>(8,727)</u>	\$ (1,104)	(14.5%)	\$ (1,417)	(21.0%)
Net change in fund balances	<u>\$ -</u>	<u>\$ 232,964</u>				

The School's General Fund revenues exceeded expenditures and other financing uses by \$232,964. Revenue was over budget by \$222,210 due to an increase in current year enrollment and receiving more in tuition and state aid revenues than anticipated. Expenditures were below budget by \$11,858 in total, a variance of just 0.2 percent.

**Food Service Special Revenue Fund**

Expenditures exceeded revenues by \$8,727 in the Food Service Special Revenue Fund. After a transfer of \$8,727 from the General Fund, the fund balance ended the year at \$0.

**Building Company Special Revenue Fund**

The Building Company Special Revenue Fund ended the year with a fund balance of \$534,521, an increase of \$158,282 from the prior year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table 6 shows the School's capital assets. The table also shows the total depreciation expense for the year ended June 30, 2014.

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Building Company			
Land improvements	\$ 8,541	\$ 8,541	\$ -
Buildings and improvements	4,723,157	4,713,667	9,490
Less accumulated depreciation	(1,200,120)	(1,008,058)	(192,062)
School			
Construction in progress	-	12,315	(12,315)
Furniture and equipment	481,427	402,812	78,615
Vehicles	79,027	79,027	-
Less accumulated depreciation	<u>(398,477)</u>	<u>(371,070)</u>	<u>(27,407)</u>
Total	<u>\$ 3,693,555</u>	<u>\$ 3,837,234</u>	<u>\$ (143,679)</u>
Depreciation expense	<u>\$ 219,469</u>	<u>\$ 213,593</u>	<u>\$ 5,876</u>

Additional details on the School's capital assets can be found in the notes to basic financial statements.

### Debt Administration

Table 7 illustrates the change in the School's long-term liabilities:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Building Company			
Loans payable	<u>\$ 3,596,892</u>	<u>\$ 3,783,413</u>	<u>\$ (186,521)</u>

Additional details of the School's long-term debt activity can be found in the notes to basic financial statements.

## **FACTORS BEARING ON THE SCHOOL'S FUTURE**

The School is dependent on the state of Minnesota for much of its revenue. In recent years, legislated revenue increases have made it difficult to meet the instructional program needs and increased costs due to inflation for Minnesota charter schools.

The basic general education revenue for all Minnesota charter schools was \$5,302 per pupil unit for 2014. The Legislature has provided for the equivalent of a 2.0 percent increase in basic general education aid for the 2015 fiscal year.

The School receives the majority of its funding through state special education aid. The School's ability to attract and retain students will determine the amount of state aid it earns.

The state's financial condition, and the need to utilize accounting shifts such as increasing the holdback on charter school state aid payments to balance the state budget, has a significant impact on the School's cash flow. In fiscal 2014, the state was able to restore the payment schedule for state aids to 90 percent of current year funding, which was 3.6 percent higher than amounts received in fiscal 2013, which improved the School's cash flow.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

These financial statements are designed to provide our stakeholders with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact Metro Deaf School, 1471 Brewster Street, St. Paul, Minnesota 55108.

BASIC FINANCIAL STATEMENTS

METRO DEAF SCHOOL

Statement of Net Position  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	Governmental Activities	
	2014	2013
<b>Assets</b>		
Cash and temporary investments	\$ 1,265,857	\$ 1,479,272
Receivables		
Accounts	829	–
Due from other governmental units	720,419	774,960
Inventory	370	490
Prepaid items	51,107	89,326
Capital assets, net of accumulated depreciation		
Not depreciated	–	12,315
Depreciated, net of accumulated depreciation	3,693,555	3,824,919
Total capital assets, net of accumulated depreciation	<u>3,693,555</u>	<u>3,837,234</u>
Total assets	<u>\$ 5,732,137</u>	<u>\$ 6,181,282</u>
<b>Liabilities</b>		
Salaries and benefits payable	\$ 459,513	\$ 411,873
Accounts payable	57,356	126,357
Unearned revenue	55,124	730,475
Long-term liabilities		
Due within one year	202,525	459,987
Due in more than one year	3,394,367	3,323,426
Total long-term liabilities	<u>3,596,892</u>	<u>3,783,413</u>
Total liabilities	4,168,885	5,052,118
<b>Net position</b>		
Net investment in capital assets	96,663	53,821
Restricted for Building Company	534,521	376,239
Unrestricted	932,068	699,104
Total net position	<u>1,563,252</u>	<u>1,129,164</u>
Total liabilities and net position	<u>\$ 5,732,137</u>	<u>\$ 6,181,282</u>

See notes to basic financial statements



METRO DEAF SCHOOL

Statement of Activities

Year Ended June 30, 2014

(With Partial Comparative Information for the Year Ended June 30, 2013)

Functions/Programs	2014			2013	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
			Governmental Activities	Governmental Activities	
Governmental activities					
Administration	\$ 243,600	\$ -	\$ -	\$ (243,600)	\$ (240,425)
District support services	249,064	-	-	(249,064)	(241,309)
Elementary and secondary regular instruction	185,484	23,131	1,876	(160,477)	(113,264)
Special education instruction	3,381,415	94,045	4,814,319	1,526,949	1,063,068
Instructional support services	6,026	-	-	(6,026)	(3,602)
Pupil support services	280,391	-	-	(280,391)	(142,098)
Sites and buildings	356,861	-	105,714	(251,147)	(253,331)
Fiscal and other fixed cost programs	38,138	-	-	(38,138)	(30,959)
Food service	49,045	3,339	36,979	(8,727)	(7,310)
Interest and fiscal charges	147,707	-	-	(147,707)	(171,387)
Total governmental activities	<u>\$ 4,937,731</u>	<u>\$ 120,515</u>	<u>\$ 4,958,888</u>	141,672	(140,617)
General revenues					
General grants and aids				244,350	157,048
Other general revenues				47,925	45,095
Investment earnings				141	354
Total general revenues				<u>292,416</u>	<u>202,497</u>
Change in net position				434,088	61,880
Net position – beginning				<u>1,129,164</u>	<u>1,067,284</u>
Net position – ending				<u>\$ 1,563,252</u>	<u>\$ 1,129,164</u>

See notes to basic financial statements

METRO DEAF SCHOOL

Balance Sheet  
Governmental Funds  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	General Fund	Building Company Special Revenue Fund	Nonmajor Fund	Total Governmental Funds	
				2014	2013
<b>Assets</b>					
Cash and temporary investments	\$ 683,661	\$ 582,196	\$ -	\$ 1,265,857	\$ 1,479,272
Receivables					
Accounts	829	-	-	829	-
Due from other governmental units	719,019	-	1,400	720,419	774,960
Due from other funds	1,209	-	-	1,209	1,517
Inventory	370	-	-	370	490
Prepaid items	51,107	-	-	51,107	89,326
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,456,195</u>	<u>\$ 582,196</u>	<u>\$ 1,400</u>	<u>\$ 2,039,791</u>	<u>\$ 2,345,565</u>
<b>Liabilities</b>					
Salaries and benefits payable	\$ 459,513	\$ -	\$ -	\$ 459,513	\$ 411,873
Accounts payable	53,265	3,900	191	57,356	126,357
Due to other funds	-	-	1,209	1,209	1,517
Unearned revenue	11,349	43,775	-	55,124	730,475
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>524,127</u>	<u>47,675</u>	<u>1,400</u>	<u>573,202</u>	<u>1,270,222</u>
<b>Fund balances</b>					
Nonspendable for inventory	370	-	-	370	490
Nonspendable for prepaids	51,107	-	-	51,107	89,326
Restricted for Building Company	-	534,521	-	534,521	376,239
Unassigned	880,591	-	-	880,591	609,288
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>932,068</u>	<u>534,521</u>	<u>-</u>	<u>1,466,589</u>	<u>1,075,343</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 1,456,195</u>	<u>\$ 582,196</u>	<u>\$ 1,400</u>	<u>\$ 2,039,791</u>	<u>\$ 2,345,565</u>

See notes to basic financial statements

METRO DEAF SCHOOL

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
Total fund balances – governmental funds	\$ 1,466,589	\$ 1,075,343
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	5,292,152	5,216,362
Accumulated depreciation	(1,598,597)	(1,379,128)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Loan payable	<u>(3,596,892)</u>	<u>(3,783,413)</u>
Total net position – governmental activities	<u><u>\$ 1,563,252</u></u>	<u><u>\$ 1,129,164</u></u>

See notes to basic financial statements

METRO DEAF SCHOOL

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2014  
 (With Partial Comparative Information for the Year Ended June 30, 2013)

	General Fund	Building Company Special	Nonmajor Fund	Total Governmental Funds	
		Revenue Fund		2014	2013
<b>Revenue</b>					
Federal sources	\$ 48,985	\$ -	\$ 35,904	\$ 84,889	\$ 71,556
State sources	5,116,874	-	1,075	5,117,949	4,459,956
Local sources					
Other school districts	165,501	-	-	165,501	110,278
Investment earnings	16	125	-	141	354
Other	-	525,300	3,339	528,639	528,826
Total revenue	<u>5,331,376</u>	<u>525,425</u>	<u>40,318</u>	<u>5,897,119</u>	<u>5,170,970</u>
<b>Expenditures</b>					
Current					
Administration	243,600	-	-	243,600	240,425
District support services	249,064	-	-	249,064	241,309
Elementary and secondary regular instruction					
Special education instruction	184,252	-	-	184,252	126,746
Instructional support services	3,382,838	-	-	3,382,838	3,224,525
Pupil support services	6,026	-	-	6,026	3,602
Sites and buildings	273,957	-	-	273,957	183,724
Fiscal and other fixed cost programs	711,810	-	-	711,810	675,031
Food service	38,138	-	-	38,138	30,959
Capital outlay	-	-	49,045	49,045	37,209
Debt service	-	32,915	-	32,915	44,379
Principal	-	186,521	-	186,521	172,347
Interest and fiscal charges	-	147,707	-	147,707	171,387
Total expenditures	<u>5,089,685</u>	<u>367,143</u>	<u>49,045</u>	<u>5,505,873</u>	<u>5,151,643</u>
Excess (deficiency) of revenue over expenditures	241,691	158,282	(8,727)	391,246	19,327
<b>Other financing sources (uses)</b>					
Transfers in	-	-	8,727	8,727	7,310
Transfers (out)	(8,727)	-	-	(8,727)	(7,310)
Total other financing sources (uses)	<u>(8,727)</u>	<u>-</u>	<u>8,727</u>	<u>-</u>	<u>-</u>
Net change in fund balances	232,964	158,282	-	391,246	19,327
<b>Fund balances</b>					
Beginning of year	<u>699,104</u>	<u>376,239</u>	<u>-</u>	<u>1,075,343</u>	<u>1,056,016</u>
End of year	<u>\$ 932,068</u>	<u>\$ 534,521</u>	<u>\$ -</u>	<u>\$ 1,466,589</u>	<u>\$ 1,075,343</u>

See notes to basic financial statements

METRO DEAF SCHOOL

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2014

(With Partial Comparative Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Total net change in fund balances – governmental funds	\$ 391,246	\$ 19,327
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	75,790	83,799
Depreciation expense	(219,469)	(213,593)
Repayment of long-term debt principal does not affect the change in net position. However, it reduces fund balances.		
Loans payable	<u>186,521</u>	<u>172,347</u>
Change in net position – governmental activities	<u><u>\$ 434,088</u></u>	<u><u>\$ 61,880</u></u>

See notes to basic financial statements

METRO DEAF SCHOOL

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 General Fund  
 Year Ended June 30, 2014

	Budget		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Federal sources	\$ 44,940	\$ 51,300	\$ 48,985	\$ (2,315)
State sources	4,871,076	5,005,776	5,116,874	111,098
Local sources				
Other school districts	51,340	51,340	165,501	114,161
Investment earnings	750	750	16	(734)
Total revenue	<u>4,968,106</u>	<u>5,109,166</u>	<u>5,331,376</u>	<u>222,210</u>
Expenditures				
Current				
Administration	240,545	229,328	243,600	14,272
District support services	241,567	244,336	249,064	4,728
Elementary and secondary administration	167,915	162,863	184,252	21,389
Special education instruction	3,430,958	3,407,203	3,382,838	(24,365)
Instructional support services	11,500	11,500	6,026	(5,474)
Pupil support services	139,550	274,550	273,957	(593)
Sites and buildings	703,447	732,784	711,810	(20,974)
Fiscal and other fixed cost programs	25,000	38,979	38,138	(841)
Total expenditures	<u>4,960,482</u>	<u>5,101,543</u>	<u>5,089,685</u>	<u>(11,858)</u>
Excess (deficiency) of revenue over expenditures	7,624	7,623	241,691	234,068
Other financing sources (uses)				
Transfers (out)	<u>(7,624)</u>	<u>(7,623)</u>	<u>(8,727)</u>	<u>(1,104)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	232,964	<u>\$ 232,964</u>
Fund balances				
Beginning of year			<u>699,104</u>	
End of year			<u>\$ 932,068</u>	

See notes to basic financial statements

# METRO DEAF SCHOOL

## Notes to Basic Financial Statements June 30, 2014

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

Metro Deaf School (the School) is an outcome-based charter school established in accordance with Minnesota Statute § 124D.10. The School was formed by the merger of two separate charter schools, Metro Deaf School, Inc. and Minnesota North Star Academy, and began operating on July 1, 2009. The School's financial statements include all funds, departments, agencies, boards, commissions, and other organizations for which the School is considered to be financially accountable.

Component units are legally separate entities for which the School (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the School. 1House2Hands, Inc. (the Building Company) is a Minnesota nonprofit organization classified by the Internal Revenue Service as a 501(c)(3) tax-exempt organization by reason of its function as a "supporting organization" of the School. The Building Company owns the real estate and building that is, in turn, leased by the School for its operations. The building is leased to the School under the terms of a long-term operating lease agreement. All capital assets related to the school site presented in these financial statements are the responsibility of, and are owned by, the Building Company. The Internal Revenue Code requires that, to be granted tax-exempt status as a "supporting organization," an organization must meet a three-part test. One test is whether the supporting organization is "operated, supervised, or controlled by" the organization it supports. To meet this test, members of the Building Company's Board of Directors are appointed by the School's Board. The Building Company has been reported as a blended component unit of the School, with its balances and transactions reported as funds of the School. The Building Company does not issue separate financial statements.

The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school "authorizer." The authorizer monitors and evaluates the School's performance, and periodically determines whether to renew the School's charter. The School's authorizer is the University of St. Thomas (the University). Aside from its responsibilities as authorizer, the University has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered a component unit of the University.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult, and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the School's Board can elect to either control or not control student activities. The School's Board has elected to control student activities; therefore, any such activities are accounted for in the General Fund.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Basis of Statement Presentation

As required by state law, the School operates as a nonprofit corporation under Minnesota Statute § 317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts, which mandates the use of a governmental fund accounting structure.

### C. Entity-Wide Financial Statement Presentation

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all financial activities of the School. Generally, the effect of material interfund activity has been removed from the entity-wide financial statements. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Information for the remaining nonmajor governmental fund is reported in a single column in the fund financial statements.

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

- 1. Revenue Recognition** – Revenue is recognized when it is measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School generally considers revenues to be available if collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year in which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Description of Funds

The existence of the various school funds has been established by the MDE. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

### Major Governmental Funds

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

**Building Company Special Revenue Fund** – This fund was established to account for all activities of the Building Company. This includes the receipt and use of resources borrowed to finance the purchase and improvement of the school site, the receipt of lease payments from the School, and the debt service payments required under the terms of the related long-term loans.

### Nonmajor Governmental Fund

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund was established primarily to account for the School's child nutrition program.

### E. Income Taxes

The School and Building Company are exempt from federal and state income taxes under Internal Revenue Code § 501(c)(3). Both are subject to tax on income from any unrelated business.

The School and Building Company are subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Both entities have analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where it operates. The School and Building Company believe that income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse effect on either entity's financial condition, results of operations, or cash flows. Accordingly, the School and Building Company have not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2014.

The School and Building Company are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods. The open audit periods are the years ended June 30, 2011, 2012, and 2013.

### F. Budgetary Information

Prior to July 1st, the Board adopts an annual budget for the following fiscal year for the General Fund and Food Service Special Revenue Fund, prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. For the year ended June 30, 2014, actual expenditures in the Food Service Special Revenue Fund exceeded budgeted appropriations by \$17,579.

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

### **G. Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **H. Cash and Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled balances are allocated to the respective funds on the basis of cash participation by each fund. Earnings from any investments of the Building Company Special Revenue Fund are allocated directly to that fund.

Investments in 2a7-like external investment pools are reported at amortized cost. Other investments are reported at fair value.

### **I. Receivables**

When necessary, the School utilizes an allowance for uncollectible accounts to value its receivables. However, the School considers all of its current receivables to be collectible.

### **J. Inventories**

Inventories are recorded using the consumption method of accounting and consist of supplies recorded at invoice cost, computed on a first-in, first-out basis.

### **K. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

### **L. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated fair market value on the date of donation. The School defines capital assets as those with an initial, individual cost of \$1,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 8 years for furniture, equipment, and vehicles; 10 years for land improvements; and 25 years for buildings and improvements. Construction in progress is not depreciated.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### M. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize debt proceeds equal to the par amount of debt issued as other financing sources in the year of issue.

### N. Compensated Absences

Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no liability for unused vacation pay has been recorded. Substantially all of the School's employees are entitled to sick leave at various rates. Employees are not compensated for unused sick leave upon termination of employment; therefore, no liability for unused sick leave has been recorded.

### O. Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. The School carries commercial insurance purchased from independent third parties to cover these risks. Settled claims did not exceed coverage during the last three fiscal years. There were no significant reductions in insurance coverage in fiscal 2014.

### P. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the School for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to Board resolution, the School's Board is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When committed, assigned, or unassigned resources are available for use, it is the School's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

### Q. Net Position

In the entity-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The School applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

### R. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2013, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### S. Future Change in Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for fiscal years beginning after June 15, 2014. The School has not yet determined the financial statement impact of adopting this new standard.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Components of Cash and Investments

Deposits and investments are presented in these financial statements as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash and temporary investments			
School	\$ 682,572	\$ 1,089	\$ 683,661
Building Company	<u>582,196</u>	<u>–</u>	<u>582,196</u>
Total	<u>\$ 1,264,768</u>	<u>\$ 1,089</u>	<u>\$ 1,265,857</u>

### B. Deposits

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the Board. The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the School’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The School’s deposit policies do not further limit its depository choices.

At year-end, the School had a carrying amount of deposits of \$1,264,768, while the balance on the bank records was \$1,296,586. At June 30, 2014, all of the School’s deposits were covered by federal depository insurance or by pledged collateral held by the School’s agent in the School’s name.

### C. Investments

At June 30, 2014, the School held an investment with a fair value of \$1,089 in the Minnesota School District Liquid Asset Fund (MSDLAF), which was rated AAAM by Standard & Poor’s. MSDLAF is an external investment pool, regulated by Minnesota Statutes not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The School’s investment in these funds is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the School would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the School’s investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the School’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The School’s investment policies do not further restrict investing in specific financial instruments.

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The School’s investment policies do not limit the maturities of investments; however, when purchasing investments the School considers such things as interest rates and cash flow needs.

**Concentration Risk** – This is the risk associated with investing a significant portion of the School’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The School’s investment policies do not address concentration risk.

## NOTE 3 – INTERFUND BALANCES AND TRANSACTIONS

### A. Interfund Receivables and Payables

At June 30, 2014, the Food Service Special Revenue Fund had a payable of \$1,209 due to the General Fund to eliminate a temporary cash deficit in the Food Service Special Revenue Fund. Interfund balances reported in the fund financial statements are eliminated in the entity-wide financial statements.

### B. Interfund Transfers

The General Fund transferred \$8,727 to the Food Service Special Revenue Fund during the year to help finance food service program costs. Interfund transfers reported in the fund financial statements are eliminated in the entity-wide financial statements.

## NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
School					
Construction in progress	\$ 12,315	\$ 12,315	\$ –	\$ (24,630)	\$ –
Capital assets, depreciated					
School					
Furniture and equipment	402,812	53,985	–	24,630	481,427
Vehicles	79,027	–	–	–	79,027
Building Company					
Land improvements	8,541	–	–	–	8,541
Buildings and improvements	4,713,667	9,490	–	–	4,723,157
Total capital assets, depreciated	<u>5,204,047</u>	<u>63,475</u>	<u>–</u>	<u>24,630</u>	<u>5,292,152</u>
Less accumulated depreciation for					
School					
Furniture and equipment	(334,163)	(20,973)	–	–	(355,136)
Vehicles	(36,907)	(6,434)	–	–	(43,341)
Building Company					
Land improvements	(999)	(854)	–	–	(1,853)
Buildings and improvements	(1,007,059)	(191,208)	–	–	(1,198,267)
Total accumulated depreciation	<u>(1,379,128)</u>	<u>(219,469)</u>	<u>–</u>	<u>–</u>	<u>(1,598,597)</u>
Net capital assets, depreciated	<u>3,824,919</u>	<u>(155,994)</u>	<u>–</u>	<u>24,630</u>	<u>3,693,555</u>
Total capital assets, net	<u>\$ 3,837,234</u>	<u>\$ (143,679)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,693,555</u>

Depreciation expense for the year was charged to the following governmental functions:

Elementary and secondary instruction	\$ 1,232
Special education instruction	16,013
Pupil support services	6,434
Sites and buildings	<u>195,790</u>
Total depreciation expense	<u>\$ 219,469</u>

## NOTE 5 – LONG-TERM DEBT

### A. Loans From University Bank

On December 30, 2008, the Building Company entered into an agreement with University Bank for a loan of \$1,996,100 at an interest rate of 4.25 percent over 240 equal monthly payments through December 2028. Effective January 1, 2014, the interest rate for the remaining term was lowered to 3.33 percent. The Building Company paid interest of \$62,293 on the loan during the year ended June 30, 2014.

On December 30, 2009, the Building Company entered into an agreement with University Bank for a loan of \$2,040,000 to finance the improvements to its school site at an interest rate of 4.25 percent over 240 equal monthly payments through December 2029. Effective January 1, 2014, the interest rate for the remaining term was lowered to 3.33 percent. The Building Company paid interest of \$66,616 on the loan during the year ended June 30, 2014.

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**B. Loan From the Minnesota Nonprofits Assistance Fund**

On September 19, 2006, the Building Company entered into an agreement with the Minnesota Nonprofits Assistance Fund for a loan of \$400,000 to finance the improvements to its school site, with monthly payments due through March 2014 at an interest rate of 7.5 percent. On April 25, 2014, the Building Company renegotiated the loan to extend the final payment date to April 2019. The Building Company paid interest of \$18,798 on the loan during the year ended June 30, 2014.

**C. Lease Between the School and Building Company**

The School, in turn, entered into an operating lease agreement to rent the school site from the Building Company. The lease term ends upon the date the Building Company loans are repaid in full. The School's lease payments are essentially equal to the loan payments the Building Company is required to make on the loans discussed above. The School paid rent of \$525,300 to the Building Company during the fiscal year ended June 30, 2014 under this agreement. This interfund activity is eliminated in the entity-wide financial statements.

**D. Future Minimum Debt Payments**

The following is a schedule of the minimum future loan principal and interest payments due on the School's long-term debt:

Year Ending June 30,	Loans	
	Principal	Interest
2015	\$ 202,525	\$ 122,956
2016	210,038	115,540
2017	217,858	107,718
2018	225,923	99,655
2019	356,124	90,097
2020–2024	1,098,621	313,263
2025–2029	1,222,498	115,048
2030	63,305	687
Total	<u>\$ 3,596,892</u>	<u>\$ 964,964</u>

**E. Changes in Long-Term Debt**

	June 30, 2013	Additions	Payments	June 30, 2014	Due Within One Year
Building Company long-term debt					
Loans payable	<u>\$ 3,783,413</u>	<u>\$ –</u>	<u>\$ 186,521</u>	<u>\$ 3,596,892</u>	<u>\$ 202,525</u>



## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the School are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

### Teachers' Retirement Association (TRA)

#### A. Plan Description

All teachers employed by the School are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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

Two methods are used to compute benefits for the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described:

#### Tier I

Step Rate Formula	Percentage per Year
<b>Basic Plan</b>	
First 10 years	2.2 percent
All years after	2.7 percent
<b>Coordinated Plan</b>	
First 10 years if service years are prior to July 1, 2006	1.2 percent
First 10 years if service years are July 1, 2006 or after	1.4 percent
All other years of service if service years are prior to July 1, 2006	1.7 percent
All other years of service if service years are July 1, 2006 or after	1.9 percent

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

## **NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

### **Tier II**

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.4 percent per year.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not receiving them are bound by the provisions in effect at the time they last terminated their public service.

The TRA publicly issues a comprehensive annual financial report presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at [www.minnesotatra.org](http://www.minnesotatra.org). Alternatively, a copy of the report may be obtained by writing the TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

### **B. Funding Policy**

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated Plan members and 11.0 percent for Basic Plan members during fiscal year 2014. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2013, 2012, and 2011, were approximately \$3.92 billion, \$3.87 billion, and \$3.84 billion, respectively.

The School's contributions for the years ended June 30, 2014, 2013, and 2012 were \$138,636, \$120,703, and \$109,069, respectively, equal to the required contributions for each year as set by state statutes.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates increased by 0.5 percent on July 1 of each year of the four-year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 percent.

## **NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

### **Public Employees' Retirement Association (PERA)**

#### **A. Plan Description**

All non-teacher full-time and certain part-time employees of the School are covered by defined benefit plans administered by the PERA. The PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

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

## **NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

### **B. Funding Policy**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The School makes annual contributions to the pension plans equal to the amount required by state statutes. The GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2014. In fiscal 2014, the School was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The School's contributions to the GERP for the years ended June 30, 2014, 2013, and 2012 were \$40,854, \$42,041, and \$44,467, respectively. The School's contributions were equal to the required contributions for each year as set by state statutes.

Beginning January 1, 2015, Coordinated Plan contribution rates will increase for employees and employers to 6.50 percent and 7.50 percent, respectively.

## **NOTE 7 – FLEXIBLE BENEFIT PLAN**

The School has a flexible benefit plan classified as a "cafeteria plan" (the Plan) under § 125 of the Internal Revenue Code. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, October 1 to September 30, each participant designates a total amount of pre-tax dollars to be contributed during the year. The Plan is administered by an independent third party and is accounted for in the School's General Fund. At June 30, the School is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

All property of the Plan and income attributable to that property is solely the property of the School, subject to the claims of the School's general creditors. Participants' rights under the Plan are equal to those of general creditors of the School in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The School believes it is unlikely it will use these assets to satisfy the claims of general creditors in the future.

## **NOTE 8 – COMMITMENTS AND CONTINGENCIES**

### **Federal and State Revenues**

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

SUPPLEMENTAL INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

METRO DEAF SCHOOL

General Fund  
Comparative Balance Sheet  
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	\$ 683,661	\$ 1,028,110
Receivables		
Accounts	829	-
Due from other governmental units	719,019	771,763
Due from other funds	1,209	1,517
Inventory	370	490
Prepaid items	<u>51,107</u>	<u>89,326</u>
Total assets	<u>\$ 1,456,195</u>	<u>\$ 1,891,206</u>
Liabilities		
Salaries and benefits payable	\$ 459,513	\$ 411,873
Accounts payable	53,265	93,529
Unearned revenue	<u>11,349</u>	<u>686,700</u>
Total liabilities	524,127	1,192,102
Fund balances		
Nonspendable for inventory	370	490
Nonspendable for prepaids	51,107	89,326
Unassigned	<u>880,591</u>	<u>609,288</u>
Total fund balances	<u>932,068</u>	<u>699,104</u>
Total liabilities and fund balances	<u>\$ 1,456,195</u>	<u>\$ 1,891,206</u>

METRO DEAF SCHOOL

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		Over (Under) Budget	2013
	Budget	Actual		Actual
<b>Revenue</b>				
Federal sources	\$ 51,300	\$ 48,985	\$ (2,315)	\$ 45,515
State sources	5,005,776	5,116,874	111,098	4,459,061
Local sources				
Other school districts	51,340	165,501	114,161	110,278
Investment earnings	750	16	(734)	292
Total revenue	<u>5,109,166</u>	<u>5,331,376</u>	<u>222,210</u>	<u>4,615,146</u>
<b>Expenditures</b>				
Current				
Administration				
Salaries	69,774	71,442	1,668	75,416
Employee benefits	17,738	18,111	373	20,864
Purchased services	123,866	135,327	11,461	127,631
Supplies and materials	4,950	8,951	4,001	4,293
Other expenditures	13,000	9,769	(3,231)	12,221
Total administration	<u>229,328</u>	<u>243,600</u>	<u>14,272</u>	<u>240,425</u>
District support services				
Salaries	118,012	118,100	88	113,341
Employee benefits	39,574	38,259	(1,315)	36,820
Purchased services	83,000	88,333	5,333	86,883
Supplies and materials	3,500	4,037	537	3,995
Other expenditures	250	335	85	270
Total district support services	<u>244,336</u>	<u>249,064</u>	<u>4,728</u>	<u>241,309</u>
Elementary and secondary regular instruction				
Salaries	95,562	109,561	13,999	64,228
Employee benefits	18,700	20,271	1,571	22,798
Purchased services	19,005	32,869	13,864	16,202
Supplies and materials	15,826	9,236	(6,590)	9,704
Capital expenditures	12,315	12,315	-	13,614
Other expenditures	1,455	-	(1,455)	200
Total elementary and secondary regular instruction	<u>162,863</u>	<u>184,252</u>	<u>21,389</u>	<u>126,746</u>
Special education instruction				
Salaries	2,294,027	2,267,901	(26,126)	2,186,033
Employee benefits	734,781	724,774	(10,007)	701,911
Purchased services	272,447	320,705	48,258	287,083
Supplies and materials	80,948	47,749	(33,199)	34,145
Capital expenditures	20,000	18,121	(1,879)	11,037
Other expenditures	5,000	3,588	(1,412)	4,316
Total special education instruction	<u>3,407,203</u>	<u>3,382,838</u>	<u>(24,365)</u>	<u>3,224,525</u>

(continued)



METRO DEAF SCHOOL

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual (continued)  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		Over (Under) Budget	2013
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Instructional support services				
Purchased services	11,500	6,026	(5,474)	3,602
Pupil support services				
Purchased services	266,800	270,658	3,858	137,094
Supplies and materials	7,500	3,163	(4,337)	1,879
Capital expenditures	—	—	—	44,653
Other expenditures	250	136	(114)	98
Total pupil support services	<u>274,550</u>	<u>273,957</u>	<u>(593)</u>	<u>183,724</u>
Sites and buildings				
Salaries	51,578	46,275	(5,303)	45,870
Employee benefits	18,571	16,775	(1,796)	26,706
Purchased services	611,530	603,598	(7,932)	591,751
Supplies and materials	11,000	8,612	(2,388)	10,704
Total sites and buildings	<u>732,784</u>	<u>711,810</u>	<u>(20,974)</u>	<u>675,031</u>
Fiscal and other fixed cost programs				
Purchased services	<u>38,979</u>	<u>38,138</u>	<u>(841)</u>	<u>30,959</u>
Total expenditures	<u>5,101,543</u>	<u>5,089,685</u>	<u>(11,858)</u>	<u>4,726,321</u>
Excess (deficiency) of revenue over expenditures	7,623	241,691	234,068	(111,175)
Other financing sources (uses)				
Transfers (out)	<u>(7,623)</u>	<u>(8,727)</u>	<u>(1,104)</u>	<u>(7,310)</u>
Net change in fund balances	<u>\$ —</u>	<u>232,964</u>	<u>\$ 232,964</u>	<u>(118,485)</u>
Fund balances				
Beginning of year		<u>699,104</u>		<u>817,589</u>
End of year		<u>\$ 932,068</u>		<u>\$ 699,104</u>

METRO DEAF SCHOOL

Food Service Special Revenue Fund  
Comparative Balance Sheet  
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Receivables		
Due from other governmental units	<u>\$ 1,400</u>	<u>\$ 3,197</u>
Liabilities		
Accounts payable	\$ 191	\$ 2,980
Due to other funds	<u>1,209</u>	<u>217</u>
Total liabilities	<u>\$ 1,400</u>	<u>\$ 3,197</u>

METRO DEAF SCHOOL

Food Service Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Federal sources	\$ 19,990	\$ 35,904	\$ 15,914	\$ 26,041
State sources	890	1,075	185	895
Local sources				
Other – primarily meal sales	3,150	3,339	189	2,963
Total revenue	<u>24,030</u>	<u>40,318</u>	<u>16,288</u>	<u>29,899</u>
Expenditures				
Current				
Salaries and wages	6,076	5,856	(220)	5,531
Employee benefits	890	899	9	834
Purchased services	–	692	692	109
Supplies and materials	24,500	41,598	17,098	30,735
Total expenditures	<u>31,466</u>	<u>49,045</u>	<u>17,579</u>	<u>37,209</u>
Excess (deficiency) of revenue over expenditures	(7,436)	(8,727)	(1,291)	(7,310)
Other financing sources				
Transfers in	<u>7,436</u>	<u>8,727</u>	<u>1,291</u>	<u>7,310</u>
Net change in fund balances	<u>\$ –</u>	<u>–</u>	<u>\$ –</u>	<u>–</u>
Fund balances				
Beginning of year		<u>–</u>		<u>–</u>
End of year		<u>\$ –</u>		<u>\$ –</u>

METRO DEAF SCHOOL

Building Company Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	<u>\$ 582,196</u>	<u>\$ 451,162</u>
Liabilities		
Accounts payable	\$ 3,900	\$ 29,848
Due to other funds	-	1,300
Unearned revenue	<u>43,775</u>	<u>43,775</u>
Total liabilities	47,675	74,923
Fund balances		
Restricted for Building Company	<u>534,521</u>	<u>376,239</u>
Total liabilities and fund balances	<u>\$ 582,196</u>	<u>\$ 451,162</u>

METRO DEAF SCHOOL

Building Company Special Revenue Fund  
 Comparative Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue		
Local sources		
Investment earnings	\$ 125	\$ 62
Other		
Rent	525,300	525,300
Miscellaneous	-	563
Total revenue	<u>525,425</u>	<u>525,925</u>
Expenditures		
Capital outlay		
Purchased services	22,925	25,078
Capital expenditures	9,990	19,301
Debt service		
Principal	186,521	172,347
Interest and fiscal charges	147,707	171,387
Total expenditures	<u>367,143</u>	<u>388,113</u>
Net change in fund balances	158,282	137,812
Fund balances		
Beginning of year	<u>376,239</u>	<u>238,427</u>
End of year	<u>\$ 534,521</u>	<u>\$ 376,239</u>

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER REQUIRED REPORTS

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITOR'S 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

To the Board and Management of  
Metro Deaf School  
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metro Deaf School (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 16, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

(continued)

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

*Malloy, Montague, Karnowski, Radosevich & Co., P. A.*

Minneapolis, Minnesota  
December 16, 2014

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the Board and Management of  
Metro Deaf School  
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metro Deaf School (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 16, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools. Our audit included both of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the School's noncompliance with the above referenced provisions.

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

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota  
December 16, 2014

METRO DEAF SCHOOL

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2014

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 5,331,376	\$ 5,331,376	\$ –
Total expenditures		\$ 5,089,685	\$ 5,089,685	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 51,477	\$ 51,477	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ –	\$ –	\$ –
406	Health and safety	\$ –	\$ –	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ –	\$ –	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ –	\$ –	\$ –
Unassigned				
422	Unassigned fund balance	\$ 880,591	\$ 880,591	\$ –
<b>Food Service</b>				
Total revenue		\$ 40,318	\$ 40,318	\$ –
Total expenditures		\$ 49,045	\$ 49,044	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ –	\$ –	\$ –
432	ECFE	\$ –	\$ –	\$ –
444	School readiness	\$ –	\$ –	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

METRO DEAF SCHOOL

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2014

	Audit	UFARS	Audit – UFARS
<b>Building Construction</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve			
407 Capital projects levy	\$ –	\$ –	\$ –
409 Alternative facility program	\$ –	\$ –	\$ –
413 Project funded by COP	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve			
425 Bond refundings	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>Internal Service</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Revocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Debt Service Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

Note 1: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Note 2: This table reflects only the activity of Metro Deaf School, the primary government. The activity and balances of 1House2Hands, Inc., a blended component unit, are not included.

THIS PAGE INTENTIONALLY LEFT BLANK