

INDEPENDENT SCHOOL DISTRICT NO. 879
Delano, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

INDEPENDENT SCHOOL DISTRICT NO. 879

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INDEPENDENT SCHOOL DISTRICT NO. 879

**BOARD OF EDUCATION AND ADMINISTRATION
For the Fiscal Year Ended June 30, 2012**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Amy Johnson	Chairperson	December 31, 2012
Randy Durick	Vice Chairperson	December 31, 2012
Carolyn Milano	Clerk	December 31, 2012
Lisa Seguin	Treasurer	December 31, 2014
Peter Brasket	Director	December 31, 2012
Sarah Baker	Director	December 31, 2012
Corey Black	Director	December 31, 2012

<u>Administration</u>	
Dr. John Sweet	Superintendent
Mary Reeder	Business Manager



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 49, 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 (GASB), 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 U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The accompanying supplementary information identified in the Table of Contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. We also have previously audited, in accordance with U.S. generally accepted auditing standards, the District's basic financial statements for the fiscal year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated November 7, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The prior year comparative supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the prior year comparative supplementary information is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Kern DeWenter, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 17, 2012

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INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

This section of Independent School District No. 879, Delano Public Schools' (the ("District")) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2011-2012) and the prior year (2010-2011) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- General Fund 01 - The overall fund balance decreased by \$ 64,945.
- Food Service Fund 02 - The overall fund balance increased by \$ 30,848.
- Community Service Fund 04 - The overall fund balance increased by \$ 29,367.
- Debt Service Fund 07 - The overall fund balance decreased by \$ 15,433.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
 - 1. Government-Wide Financial Statements
 - 2. Fund Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Government-Wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

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

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

In the government-wide financial statements, the District's activities are shown in one category.

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

Fund Financial Statements

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

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

The District has two kinds of funds:

Governmental Funds – Most of the District's basic services are included in governmental funds, which generally focus on:

- (1) How cash and other financial assets that can readily be converted to cash, flow in and out; and;
- (2) The balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Table A-1

	Governmental Activities		Percentage
	2012	2011	Change
Current and Other Assets	\$ 13,322,776	\$ 13,154,471	1.28%
Capital Assets	29,802,403	30,494,404	-2.27%
Total Assets	43,125,179	43,648,875	-1.20%
Current Liabilities	6,212,614	6,058,079	2.25%
Long-Term Liabilities	26,109,382	27,602,292	-5.41%
Total Liabilities	32,321,996	33,660,371	-3.98%
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	3,693,021	2,892,112	27.69%
Restricted	2,509,444	1,878,743	33.57%
Unrestricted	4,600,718	5,217,649	-11.82%
Net Assets	\$ 10,803,183	\$ 9,988,504	8.16%

As described in the table above, the District's combined net assets were \$ 10,803,183 on June 30, 2012, an increase of \$ 814,679.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Changes in Net Assets

The following Table A-2 presents the change in net assets of the District.

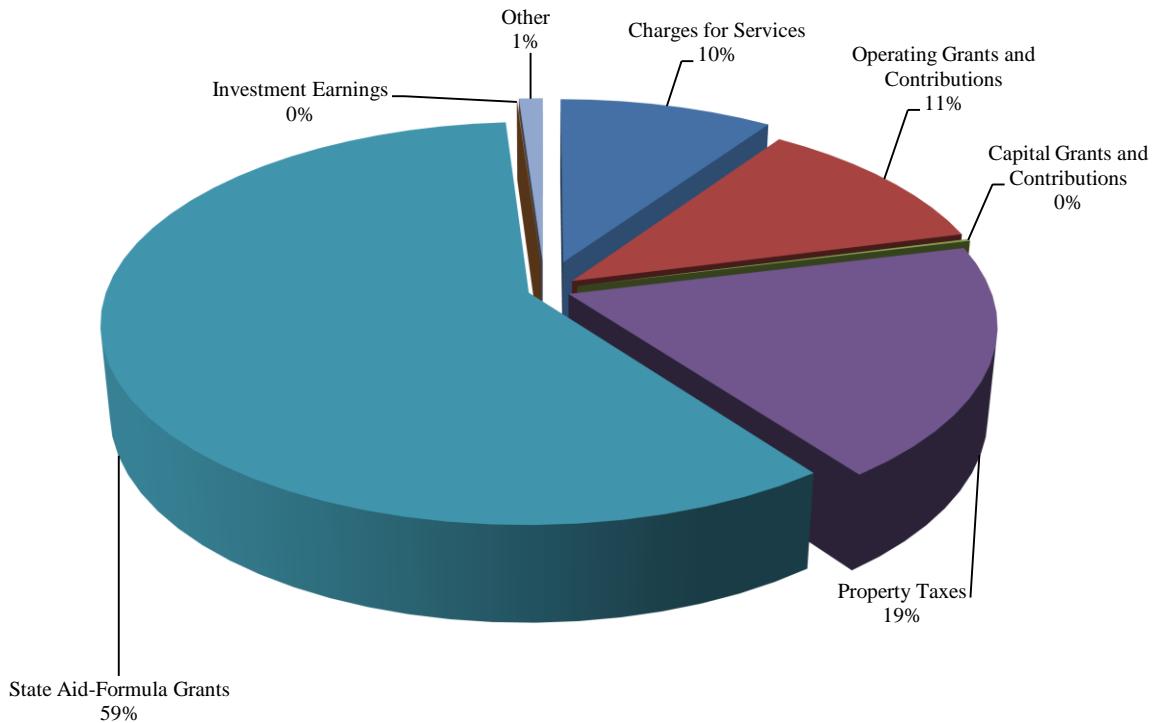
Table A-2

	Governmental Activities for the Fiscal Year Ended June, 30		Total Percentage Change
	2012	2011	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 2,394,772	\$ 2,357,022	1.60%
Operating Grants and Contributions	2,867,363	2,960,275	-3.14%
Capital Grants and Contributions	40,186	15,350	100.00%
General Revenues:			
Property Taxes	4,703,860	6,453,981	-27.12%
State Aid-Formula Grants	14,827,722	13,396,219	10.69%
Investment Earnings	6,545	752,624	-99.13%
Other	267,638	148,754	79.92%
Total Revenues	<u>\$ 25,108,086</u>	<u>\$ 26,084,225</u>	<u>-3.74%</u>
EXPENDITURES:			
Administration	\$ 1,173,732	\$ 1,113,256	5.43%
District Support Services	501,048	482,581	3.83%
Elementary and Secondary Regular Instruction	10,709,391	10,250,349	4.48%
Vocational Education Instruction	309,408	260,804	18.64%
Special Education Instruction	2,485,459	2,426,053	2.45%
Instructional Support Services	604,816	641,358	-5.70%
Pupil Support Services	1,963,145	2,045,775	-4.04%
Sites and Buildings	2,642,344	2,744,813	-3.73%
Fiscal and Other Fixed Cost Programs	74,028	68,857	7.51%
Food Service	864,067	830,559	4.03%
Community Education and Services	1,844,625	1,743,818	5.78%
Interest and Fiscal Charges on Long-Term Debt	1,121,344	1,814,151	-38.19%
Total Expenditures	<u>\$ 24,293,407</u>	<u>\$ 24,422,374</u>	<u>-0.53%</u>
Increase/(Decrease) in Net Assets	814,679	1,661,851	-50.98%
Beginning of Year Net Assets	<u>9,988,504</u>	<u>8,326,653</u>	<u>19.96%</u>
End of Year Net Assets	<u>\$ 10,803,183</u>	<u>\$ 9,988,504</u>	<u>8.16%</u>

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

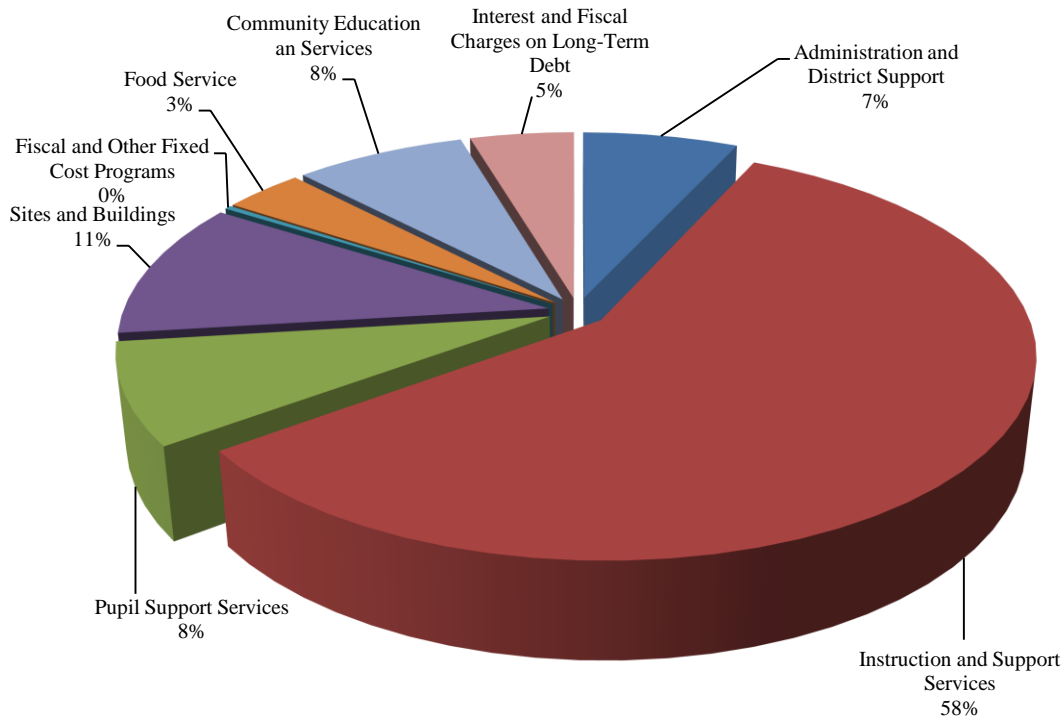
The District's total revenues were \$ 25,108,086 for the fiscal year ended June 30, 2012. Property taxes and state aid-formula grants accounted for 78% of total revenue for the fiscal year. (See Figure A-1). The remaining 22% came from other program revenues (charges for services and operating and capital grants and contributions), general revenues and investment earnings.

Figure A-1 Sources of District's Revenues for Fiscal 2012



INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Figure A-2 District Expenses for Fiscal 2012



The total costs of all programs and services were \$ 24,293,407 for fiscal year 2012. The District's expenses are predominately related to instruction and pupil support services (66%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 5%, and 11% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was \$ 24,293,407.

- Some of the cost was paid by the users of the District's programs - \$ 2,394,772
- The federal and state governments subsidized certain programs with grants and contributions - \$ 2,907,549
- Most of the District's costs - \$ 19,531,582, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like the Food Service and Community Education Funds. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 66% of those resources are spent on instruction and support services associated with education.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

NET COST OF GOVERNMENTAL ACTIVITIES

Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2012	2011	2011-2012	2012	2011	2011-2012
Administration	\$ 1,173,732	\$ 1,113,256	5.43%	\$ 1,117,922	\$ 1,054,695	5.99%
District Support Services	501,048	482,581	3.83%	488,409	466,925	4.60%
Elementary and Secondary Regular Education	10,709,391	10,250,349	4.48%	9,922,682	9,574,540	3.64%
Vocational Education Instruction	309,408	260,804	18.64%	309,408	260,804	18.64%
Special Education Instruction	2,485,459	2,426,053	2.45%	915,659	570,332	60.55%
Instructional Support Services	604,816	641,358	-5.70%	586,934	624,259	-5.98%
Pupil Support Services	1,963,145	2,045,775	-4.04%	1,886,567	2,007,271	-6.01%
Sites and Buildings	2,642,344	2,744,813	-3.73%	2,370,361	2,523,759	-6.08%
Fiscal and Other Fixed Cost Programs	74,028	68,857	7.51%	74,028	68,857	7.51%
Food Service	864,067	830,559	4.03%	(30,645)	(39,511)	-22.44%
Community Education and Services	1,844,625	1,743,818	5.78%	228,417	163,645	39.58%
Interest and Fiscal Charges on Long-Term Debt	1,121,344	1,814,151	-38.19%	1,121,344	1,814,151	-38.19%
Total	<u>\$ 24,293,407</u>	<u>\$ 24,422,374</u>	<u>-0.53%</u>	<u>\$ 18,991,086</u>	<u>\$ 19,089,727</u>	<u>-0.52%</u>

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

In addition, GASB Statement No. 34 requires certain revenues and expenditures to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is shown on page 23 and shows a net change in assets of \$ 814,679.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$ 7,322,112, a decrease of \$ 20,163 over last fiscal year's ending fund balance of \$ 7,342,275.

Revenues and other financing sources for the District's governmental funds were \$ 25,094,575, while total expenditures and other financing uses were \$ 25,114,738, for a deficit of \$ 20,163.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 and beyond, including transportation services and capital outlay projects.

General Fund revenues are outlined in Table A-4 below:

Summary of General Fund Revenues

Table A-4

	Year Ended June 30,		Amount of	Percent
	2012	2011	Increase (Decrease)	Increase (Decrease)
LOCAL SOURCES:				
Property Taxes	\$ 2,250,351	\$ 3,333,602	\$(1,083,251)	-32.49%
Other Local and County Sources	783,283	698,503	84,780	12.14%
State Sources	16,426,846	15,041,960	1,384,886	9.21%
Federal Sources	548,957	691,567	(142,610)	-20.62%
Sales and Other Conversion of Assets	10,191	7,341	2,850	38.82%
Total General Fund Revenue	<u>\$ 20,019,628</u>	<u>\$19,772,973</u>	<u>\$ 246,655</u>	<u>1.25%</u>

Revenues from the General Fund totaled \$ 20,019,628, an increase of 1.25% over the preceding fiscal year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year-to-year without any net change on revenue.

Property taxes decreased due to not having any additional property tax shift dollars to recognize in 2011-2012; there was a large property tax shift that had to be recognized in 2010-2011, which accounts for the large balance in that fiscal year. The change in state sources of revenue is due in large part because last year, the District's state aid was adjusted for the early recognition of property tax revenue, which caused last fiscal year's state aid to be recognized at a lower amount. The change in federal sources was due to the fact that 2010-2011 was the last fiscal year the District received federal special education stimulus dollars. Other sources of revenue increased due to an insurance payment received for a water main break that occurred in the 2011-2012 school year.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

General Fund (Continued)

General Fund expenditures are itemized in Table A-5:

Summary of General Fund Expenditures

Table A-5

	Year Ended		Amount of	Percent
	June 30,		Increase	Increase
	2012	2011	(Decrease)	(Decrease)
Salaries	\$ 10,762,494	\$ 10,682,971	\$ 79,523	0.74%
Employee Benefits	4,281,222	4,139,841	141,381	3.42%
Purchased Services	3,098,925	2,953,617	145,308	4.92%
Supplies and Materials	885,317	792,801	92,516	11.67%
Capital Expenditures	658,774	554,159	104,615	18.88%
Other Expenditures	397,841	425,281	(27,440)	-6.45%
Total General Fund Revenue	\$ 20,084,573	\$ 19,548,670	\$ 535,903	2.74%

Total General Fund expenditures increased by \$ 535,903, or 2.74% over the previous fiscal year.

Employee benefits increased due to the following reasons: 1) negotiated health benefit increases, and 2) the TRA contribution rate changed from 5.5% in 2010-2011, to 6% in 2011-2012. The TRA contribution rate is scheduled to increase an additional 0.5% in 2012-2013.

Purchased services increased due to the community education boiler replacement professional service fees, increased special education transportation, increased fuel surcharge costs and increased care and treatment and transition services. Supplies and materials increased due to curriculum purchasing that occurred in June 2012. Capital expenditures increased due to the following reasons: 1) community education boiler was replaced, and 2) seven servers and fiber optic cable were replaced in the District.

In 2011-2012, the General Fund recorded a deficit of \$64,945. The unassigned fund balance closed at \$ 3,746,902, which is 19% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2012, the District is in compliance with that fund balance goal.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

General Fund (Continued)

General Fund Budgetary Highlights

Actual revenues were \$ 147,411 over the final budget, a 0.74% variance. Actual expenditures were \$ 261,943 under budget, a 1.28% variance. The variance between original and final budgeted revenue amounts was due to funds received to offset specific expenditures (i.e. field trips, donations for technology or athletic purposes). The expenditure budget variance is due to decreased costs for health and safety projects and unspent budgeted dollars for capital technology.

DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by \$ 15,433 in 2011-2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to \$ 29,802,403 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 4 of this report.

Capital Assets – Governmental Activities

Table A-6

	2011	2011	Percentage Change
Land	\$ 1,022,151	\$ 1,022,151	0.00%
Land Improvements	1,574,775	1,574,775	0.00%
Buildings	37,212,069	37,212,069	0.00%
Equipment	1,795,473	1,513,011	18.67%
Capital Lease	3,178,525	3,178,525	0.00%
Construction in Progress	-	13,300	-100.00%
Less Accumulated Depreciation	(14,980,590)	(14,019,427)	6.86%
Total	\$ 29,802,403	\$ 30,494,404	-2.27%

During the spring and summer of 2011, a new boiler was installed in the community education building to replace the two old boilers that had been condemned. The boiler project had been started in the spring of 2011 and the \$ 13,300 in construction in progress in 2011 accounted for the cost of the project up through June 30, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Long-Term Liabilities

At fiscal year-end, the District had \$ 26,064,084 in total long-term debt, a decrease of 5.57% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 5 of the financial statements.)

Long-Term Liabilities

Table A-7

	2012	2011	Percentage Change
General Obligation Bonds Payable	\$ 23,585,000	\$ 24,880,000	-5.20%
Capital Lease Payable	2,457,724	2,636,053	-6.77%
Compensated Absences Payable	21,360	30,543	-30.07%
 Total	 \$ 26,064,084	 \$ 27,546,596	 -5.38%

The biggest factor in the decrease in long-term liabilities is due to the semi-annual bond payments and monthly capital lease payments that are decreasing the district's overall debt obligation.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. With minimal increases on the basic general education formula allowances for the past couple of biennium's and a 1% increase for the 2011-2012 and the 2012-2013 school years, school districts across the State of Minnesota are forced to utilize the voter-approved excess levy process to fund basic current operations or face significant budget reductions. The excess levy referendum state average at the time of this writing is approximately \$ 1,050 per student. The District currently has authority to levy \$ 733, but the District currently only levies for \$ 426.86 per student, which is \$ 624 below the state average. The additional \$ 307 operating referendum levy that was approved by the voters was to be used to operate a new building that was to be built. The building bond question failed, and the School Board has chosen to under levy each year, thus the District only levies for the 2002 voter-approved excess operating referendum of \$ 426.86, which expires at the end of 2012.

On November 6, 2012, the District will be seeking voter approval to renew the current excess operating levy referendum of \$ 426.86 that expires in 2012, and approve an additional \$ 325 per student for 10 years. The increase in amount will be used to maintain existing student programs. Last year, the District held an election for the approval to rescind the current \$ 426.86 levy and replace it with \$ 990.00. That levy failed, so the district made reductions and increased some fees for the 2012-2013 school year.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The District had a healthy General Fund balance at the end of the 2011-2012 school year. The District is planning to deficit spend \$ 280,000 in the 2012-2013 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning. Enrollment will continue to be monitored; enrollment in 2011-2012 increased by 12 students from 2010-2011, and the District is projecting enrollment to increase by 37 students in the 2012-2013. Finally, the District will continue to strive to achieve its mission statement of "Educational Excellence is our Foremost Goal".

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD No. 879, Attention: Business Manager, 700 Elm Avenue East, Delano, Minnesota 55328.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF NET ASSETS
June 30, 2012**

	Governmental Activities
ASSETS	
Cash and Investments (Including Cash Equivalents)	\$ 4,386,301
Current Property Taxes Receivable	2,468,377
Delinquent Property Taxes Receivable	275,127
Accounts Receivable	5,044
Interest Receivable	1,892
Due from Department of Education	5,947,976
Due from Other Minnesota School Districts	19,425
Due from Federal Government through Department of Education	85,182
Due from Other Governmental Units	12,127
Inventory	31,828
Prepaid Items	89,497
Capital Assets, Not being Depreciated:	
Land	1,022,151
Capital Assets, Net of Accumulated Depreciation:	
Land Improvements	759,479
Buildings	27,215,697
Machinery and Equipment	805,076
	<hr/>
Total Assets	\$ 43,125,179
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts Payable	\$ 116,116
Salaries and Benefits Payable	1,961,101
Interest Payable	405,098
Due to Other Minnesota School Districts	50,591
Due to Other Governmental Units	29,383
Unearned Revenue	162,371
Property Taxes Levied for Subsequent Year's Expenditures	3,464,495
Property Tax Shift Adjustment	23,459
Bonds Payable:	
Payable Within One Year	1,350,000
Payable After One Year	22,235,000
Capital Lease Payable:	
Payable Within One Year	185,781
Payable After One Year	2,271,943
Vacation Payable:	
Payable Within One Year	21,360
Net Other Post Employment Benefits (OPEB) Obligation	45,298
Total Liabilities	<hr/> 32,321,996 <hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,693,021
Restricted for:	
Debt Service	418,800
Other Purposes	2,090,644
Unrestricted	4,600,718
Total Net Assets	<hr/> 10,803,183 <hr/>
Total Liabilities and Net Assets	<hr/> \$ 43,125,179 <hr/>

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Administration	\$ 1,173,732	\$ -	\$ 55,810	\$ -	\$ (1,117,922)
District Support Services	501,048	1,719	10,920	-	(488,409)
Elementary and Secondary Regular Instruction	10,709,391	274,538	471,985	40,186	(9,922,682)
Vocational Education Instruction	309,408	-	-	-	(309,408)
Special Education Instruction	2,485,459	24,203	1,545,597	-	(915,659)
Instructional Support Services	604,816	-	17,882	-	(586,934)
Pupil Support Services	1,963,145	-	76,578	-	(1,886,567)
Sites and Buildings	2,642,344	11,459	260,524	-	(2,370,361)
Fiscal and Other Fixed Cost Programs	74,028	-	-	-	(74,028)
Food Service	864,067	612,675	282,037	-	30,645
Community Education and Services	1,844,625	1,470,178	146,030	-	(228,417)
Interest and Fiscal Charges on Long-Term Debt	1,121,344	-	-	-	(1,121,344)
Total Governmental Activities	\$ 24,293,407	\$ 2,394,772	\$ 2,867,363	\$ 40,186	\$ (18,991,086)
General Revenues					
Taxes:					
Property Taxes, Levied for General Purposes					\$ 2,266,123
Property Taxes, Levied for Community Service					211,746
Property Taxes, Levied for Debt Service					2,225,991
State Aid-Formula Grants					14,827,722
Other General Revenues					267,638
Investment Income					6,545
Total General Revenues					19,805,765
Change in Net Assets					814,679
Net Assets - Beginning					9,988,504
Net Assets - Ending					\$ 10,803,183

INDEPENDENT SCHOOL DISTRICT NO. 879

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 1,835,944	\$ 1,742,649	\$ 807,708	\$ 4,386,301
Current Property Taxes Receivable	1,110,493	1,245,983	111,901	2,468,377
Delinquent Property Taxes Receivable	130,961	130,135	14,031	275,127
Accounts Receivable	3,621	-	1,423	5,044
Interest Receivable	1,892	-	-	1,892
Due from Department of Education	5,873,350	32,681	41,945	5,947,976
Due from Federal Government				
through Department of Education	85,182	-	-	85,182
Due from Other Minnesota School Districts	14,653	-	4,772	19,425
Due from Other Governmental Units	12,127	-	-	12,127
Inventory	10,445	-	21,383	31,828
Prepaid Items	86,040	-	3,457	89,497
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 9,164,708</u>	<u>\$ 3,151,448</u>	<u>\$ 1,006,620</u>	<u>\$ 13,322,776</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 90,494	\$ -	\$ 25,622	\$ 116,116
Salaries and Benefits Payable	1,835,044	-	126,057	1,961,101
Due to Other Minnesota School Districts	50,591	-	-	50,591
Due to Other Governmental Units	27,452	-	1,931	29,383
Deferred Revenue	132,733	91,359	131,427	355,519
Property Taxes Levied for Subsequent				
Year's Expenditures	1,029,504	2,327,550	107,441	3,464,495
Property Tax Shift Adjustment	23,459	-	-	23,459
Total Liabilities	<u>3,189,277</u>	<u>2,418,909</u>	<u>392,478</u>	<u>6,000,664</u>
Fund Balances				
Nonspendable	96,485	-	24,840	121,325
Restricted	1,466,651	732,539	589,302	2,788,492
Committed	183,029	-	-	183,029
Assigned	482,364	-	-	482,364
Unassigned	3,746,902	-	-	3,746,902
Total Fund Balances	<u>5,975,431</u>	<u>732,539</u>	<u>614,142</u>	<u>7,322,112</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 9,164,708</u>	<u>\$ 3,151,448</u>	<u>\$ 1,006,620</u>	<u>\$ 13,322,776</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2012**

Total Fund Balance - Governmental Funds	\$ 7,322,112
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	44,782,993
Less Accumulated Depreciation	(14,980,590)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond Principal Payable	(23,585,000)
Capital Lease Payable	(2,457,724)
Vacation Payable	(21,360)
Net OPEB Obligation	(45,298)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	193,148
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	
	<u>(405,098)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 10,803,183</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Property Taxes	\$ 2,250,351	\$ 2,223,505	\$ 216,493	\$ 4,690,349
Other Local and County Revenues	783,283	1,530	1,512,417	2,297,230
Revenue from State Sources	16,426,846	91,544	174,131	16,692,521
Revenue from Federal Sources	548,957	-	242,840	791,797
Sales and Other Conversion of Assets	10,191	-	612,487	622,678
Total Revenues	<u>20,019,628</u>	<u>2,316,579</u>	<u>2,758,368</u>	<u>25,094,575</u>
EXPENDITURES				
Current				
Administration	1,173,441	-	-	1,173,441
District Support Services	498,595	-	-	498,595
Elementary and Secondary Regular Instruction	10,349,880	-	-	10,349,880
Vocational Education Instruction	309,416	-	-	309,416
Special Education Instruction	2,476,891	-	-	2,476,891
Instructional Support Services	597,327	-	-	597,327
Pupil Support Services	1,954,719	-	-	1,954,719
Sites and Buildings	1,708,419	-	-	1,708,419
Fiscal and Other Fixed Cost Programs	74,028	-	-	74,028
Food Service	-	-	862,872	862,872
Community Education and Services	-	-	1,821,567	1,821,567
Capital Outlay				
Administration	1,720	-	-	1,720
District Support Services	430	-	-	430
Elementary and Secondary Regular Instruction	363,653	-	-	363,653
Special Education Instruction	9,874	-	-	9,874
Instructional Support Services	7,895	-	-	7,895
Pupil Support Services	1,143	-	-	1,143
Sites and Buildings	274,059	-	-	274,059
Food Service	-	-	1,203	1,203
Community Education and Services	-	-	12,511	12,511
Debt Service				
Principal	178,940	1,295,000	-	1,473,940
Interest and Fiscal Charges	104,143	1,037,012	-	1,141,155
Total Expenditures	<u>20,084,573</u>	<u>2,332,012</u>	<u>2,698,153</u>	<u>25,114,738</u>
Net Change in Fund Balances	(64,945)	(15,433)	60,215	(20,163)
FUND BALANCES				
Beginning of Year	<u>6,040,376</u>	<u>747,972</u>	<u>553,927</u>	<u>7,342,275</u>
End of Year	<u>\$ 5,975,431</u>	<u>\$ 732,539</u>	<u>\$ 614,142</u>	<u>\$ 7,322,112</u>

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (20,163)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However,
in the Statement of Activities, the cost of those assets is allocated over the
estimated useful lives as depreciation expense.

Capital Outlays	269,162
Depreciation Expense	(961,163)

Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	9,183
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Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in the net assets in the Statement of Activities.

Bonds Payable	1,295,000
Capital Lease Payable	178,329

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	20,422
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Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	10,398
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	13,511
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Change in Net Assets - Governmental Activities	<u>\$ 814,679</u>
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INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Local Property Taxes	\$ 2,350,909	\$ 2,221,876	\$ 2,250,351	\$ 28,475
Other Local and County Revenues	285,180	723,693	783,283	59,590
Revenue from State Sources	15,914,947	16,364,301	16,426,846	62,545
Revenue from Federal Sources	547,327	552,241	548,957	(3,284)
Sales and Other Conversion of Assets	2,300	10,106	10,191	85
Total Revenues	<u>19,100,663</u>	<u>19,872,217</u>	<u>20,019,628</u>	<u>147,411</u>
EXPENDITURES				
Current				
Administration	1,010,472	1,184,111	1,173,441	(10,670)
District Support Services	554,008	505,411	498,595	(6,816)
Elementary and Secondary Regular Instruction	9,877,069	10,438,158	10,349,880	(88,278)
Vocational Education Instruction	277,476	309,417	309,416	(1)
Special Education Instruction	2,377,902	2,481,949	2,476,891	(5,058)
Instructional Support Services	1,080,711	612,012	597,327	(14,685)
Pupil Support Services	2,104,323	1,955,203	1,954,719	(484)
Sites and Buildings	1,979,240	1,759,814	1,708,419	(51,395)
Fiscal and Other Fixed Cost Programs	78,385	74,075	74,028	(47)
Capital Outlay				
Administration	7,500	5,215	1,720	(3,495)
District Support Services	53,956	430	430	-
Elementary and Secondary Regular Instruction	211,194	440,765	363,653	(77,112)
Special Education Instruction	-	9,874	9,874	-
Instructional Support Services	9,370	10,069	7,895	(2,174)
Pupil Support Services	-	2,203	1,143	(1,060)
Sites and Buildings	120,000	274,728	274,059	(669)
Debt Service				
Principal	187,337	178,940	178,940	-
Interest and Fiscal Charges	95,745	104,142	104,143	1
Total Expenditures	<u>20,024,688</u>	<u>20,346,516</u>	<u>20,084,573</u>	<u>(261,943)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (924,025)</u>	<u>\$ (474,299)</u>	<u>\$ (64,945)</u>	<u>\$ 409,354</u>
FUND BALANCES				
Beginning of Year			<u>6,040,376</u>	
End of Year			<u>\$ 5,975,431</u>	

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and Investments	\$ 1,275	\$ 26,472
Other Receivables	<u>-</u>	<u>1,207</u>
Total Assets	\$ 1,275	\$ 27,679
LIABILITIES		
Accounts Payable	<u>\$ 1,275</u>	<u>\$ 2,500</u>
NET ASSETS		
Held in Trust for Scholarships	<u><u>\$ -</u></u>	<u><u>\$ 25,179</u></u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended June 30, 2012

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Other Local Revenues	\$ 49,513
DEDUCTIONS	
Pupil Support Services	<u>47,173</u>
Change in Net Assets	2,340
NET ASSETS	
Beginning of Year	<u>22,839</u>
End of Year	<u><u>\$ 25,179</u></u>

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INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

B. Basic Financial Statement Information

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

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Agency and Trust Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and U.S. generally accepted accounting principles. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services.

Fiduciary Fund:

Agency Fund – The Agency Fund is used to account for resources received and held by the District as the agent for student activities.

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust Investment Shares portfolio are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pools are the same as the value of the pool shares.

Minnesota Statutes 118A require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's policy states all deposits must be in compliance with *Minnesota Statutes* 118A.03 for any amounts exceeding FDIC, SAIF, BIF, FCUA or other federal deposit coverage.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will attempt to diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Custodial Credit Risk – Investments: For investments, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are deferred and included in the liability section of the fund financial statements as deferred revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2011, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2012. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

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

I. Property Taxes

The District is located in Wright and Hennepin Counties.

Property tax levies are certified to the County Auditors in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remits taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Subsequent Events

The District has evaluated subsequent events through October 17, 2012, the date which the financial statements were available to be issued.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 50 years for land improvements, buildings, machinery and equipment and vehicles.

Capital assets not depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued, premium and discount are reported as other financing sources (uses) and principal payments are reported as expenditures when paid. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage during the fiscal year ending June 30, 2012.

O. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaids and inventory.
- **Restricted Fund Balances** – These amounts are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- **Assigned Fund Balances** – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.
- **Minimum Fund Balance Policy** – The District will strive to maintain a minimum unassigned General Fund fund balance of 12% of operating expenditures.

P. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Q. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds.
4. Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk: As of June 30, 2012, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits as of June 30, 2012 were comprised of checking accounts with a carrying amount of \$ 828,605 and a book balance of \$ 747,991.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of June 30, 2012, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Moody's/S&P Ratings</u>
MSDLAF	\$ 768,180	N/A	AAAm
MSDLAF Max	181,932	N/A	AAAm
MNTrust Investment Share Portfolio	224,878	N/A	Aaa
MNTrust Term Series	<u>2,490,417</u>	0.53	N/A
Total Investments	<u>\$ 3,665,407</u>		

Credit Risk: The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

Concentration of Credit Risk: The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. However, at June 30, 2012, the District held ten certificates of deposit totaling \$ 2,490,417, each of which had an investment balance greater than 5% of total investments at that time.

Summary of deposits and investments as of June 30, 2012:

Deposits (Note 3.A.)	\$ 747,991
Petty Cash	650
Investments (Note 3.B.)	<u>3,665,407</u>
Total Deposits and Investments	<u>\$ 4,414,048</u>

Deposits and investments are presented in the June 30, 2012 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 4,386,301
Statement of Fiduciary Net Assets:	
Cash and Investments - Agency Fund	1,275
Cash and Investments - Private Purpose Trust Fund	<u>26,472</u>
Total Deposits and Investments	<u>\$ 4,414,048</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,022,151	\$ -	\$ -	\$ 1,022,151
Construction in Progress	13,300	-	13,300	-
Total Capital Assets not being depreciated	1,035,451	-	13,300	1,022,151
Capital Assets being Depreciated:				
Improvements	1,574,775	-	-	1,574,775
Buildings	40,390,594	-	-	40,390,594
Equipment	1,513,011	282,462	-	1,795,473
Total Capital Assets being Depreciated	43,478,380	282,462	-	43,760,842
Less Accumulated Depreciation for:				
Improvements	805,199	10,097	-	815,296
Buildings	12,362,522	812,375	-	13,174,897
Equipment	851,706	138,691	-	990,397
Total Accumulated Depreciation	14,019,427	961,163	-	14,980,590
Total Capital Assets being Depreciated, Net	29,458,953	(678,701)	-	28,780,252
Governmental Activities, Capital Assets, Net	<u>\$ 30,494,404</u>	<u>\$ (678,701)</u>	<u>\$ 13,300</u>	<u>\$ 29,802,403</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 4 – CAPITAL ASSETS

Depreciation expense for the fiscal year ended June 30, 2012 was charged to the following functions:

Administration	\$ 6,768
Elementary and Secondary Regular Instruction	33,499
Pupil Support Services	8,218
Sites and Buildings	902,077
Community Service	<u>10,601</u>
Total Depreciation Expense	<u>\$ 961,163</u>

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
G.O. Bonds, Including Refunding Bonds:						
G.O. School Refunding Bonds, Series 2005	10/05/05	4.00%-4.375%	\$ 18,810,000	02/01/25	\$ 17,790,000	\$ 1,060,000
G.O. Alternative Facilities Bonds, Series 2008A	04/23/08	3.50%-4.625%	4,865,000	02/01/28	4,380,000	140,000
G.O. Capital Facilities Bonds, Series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	580,000	90,000
G.O. Corporate Bonds, Series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	835,000	60,000
Total G.O. Bonds					<u>23,585,000</u>	<u>1,350,000</u>
Capital Leases					2,457,724	185,781
Vacation Payable					<u>21,360</u>	<u>21,360</u>
Total all Long-Term Liabilities					<u>\$ 26,064,084</u>	<u>\$ 1,557,141</u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The bond obligations are paid from the Debt Service Fund. Severance, vacation and capital leases are paid from the General Fund.

B. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	\$ 24,880,000	\$ -	\$ 1,295,000	\$ 23,585,000
Capital Leases	2,636,053	-	178,329	2,457,724
Vacation Payable	<u>30,543</u>	<u>-</u>	<u>9,183</u>	<u>21,360</u>
Total Long-Term Liabilities	<u>\$ 27,546,596</u>	<u>\$ -</u>	<u>\$ 1,482,512</u>	<u>\$ 26,064,084</u>

INDEPENDENT SCHOOL DISTRICT NO. 879**NOTES TO THE FINANCIAL STATEMENTS**
June 30, 2012**NOTE 5 – LONG-TERM DEBT****C. Debt Payment Schedule**

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2013	\$ 1,350,000	\$ 984,203	\$ 2,334,203
2014	1,395,000	932,148	2,327,148
2015	1,445,000	878,318	2,323,318
2016	1,520,000	822,126	2,342,126
2017	1,560,000	762,623	2,322,623
2018-2022	8,875,000	2,802,183	11,677,183
2023-2027	7,020,000	810,545	7,830,545
2028	420,000	19,425	439,425
Total	<u>\$ 23,585,000</u>	<u>\$ 8,011,571</u>	<u>\$ 31,596,571</u>

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of \$ 23,950 for each of the 15 years of the agreement.

The future of the minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	
2013	\$ 283,082
2014	283,082
2015	283,082
2016	283,082
2017	283,082
2018-2022	1,415,410
2023	212,316
Total Lease Payments	<u>3,043,136</u>
Less Amount Representing Interest	<u>585,412</u>
Present Value of Capital Lease	<u>\$ 2,457,724</u>

The asset acquired with the capital lease was as follows has a cost of \$ 3,178,525 and accumulated depreciation of \$ 270,175 for a net value of \$ 2,908,350.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 6 –FUND BALANCES/NET ASSETS

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total
Nonspendable for:				
Inventory	\$ 10,445	\$ -	\$ 21,383	\$ 31,828
Prepays Items	86,040	-	3,457	89,497
Total Nonspendable	96,485	-	24,840	121,325
Restricted/Reserved for:				
Staff Development	6,399	-	-	6,399
Deferred Maintenance	428,842	-	-	428,842
Health and Safety	84,139	-	-	84,139
Operating Capital	947,271	-	-	947,271
Debt Service	-	732,539	-	732,539
Food Service	-	-	145,455	145,455
Community Education	-	-	435,279	435,279
Early Childhood and Family Education	-	-	2,517	2,517
School Readiness	-	-	1,834	1,834
Adult Basic Education	-	-	966	966
Community Service	-	-	3,251	3,251
Total Restricted/Reserved	1,466,651	732,539	589,302	2,788,492
Committed for:				
Separation/Retirement Benefits	183,029	-	-	183,029
Assigned for:				
Donated Funds	137,164	-	-	137,164
Student Activities	18,860	-	-	18,860
Q Comp	46,293	-	-	46,293
Next Year's Deficit	280,047	-	-	280,047
Total Assigned	482,364	-	-	482,364
Unassigned	3,746,902	-	-	3,746,902
Total Reserved Fund Balance	\$ 5,975,431	\$ 732,539	\$ 614,142	\$ 7,322,112

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 –FUND BALANCES/NET ASSETS

Fund Equity (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were reserved for staff development.

Restricted/Reserved for Deferred Maintenance – This balance represents resources available to be used on projects and costs that are eligible for health and safety revenues, disabled access levies or defined maintenance projects necessary to prevent further erosion of facilities.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs.

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted for Community Service – This balance represents the accumulation of the activity to provide the community service program.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 –FUND BALANCES/NET ASSETS

Fund Equity (Continued)

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, severance, other post-employment benefits and termination benefits. .

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balance for unspent Q Comp dollars.

Assigned for Next Year's Deficit – This balance represents resources segregated from unassigned fund balance for the next year's budgeted deficit.

Net assets restricted for other purposes on the Statement of Net Assets are comprised of the total positive General Fund reserved fund balances and the total positive net assets restricted for food service and community service.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to 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 follow.

Teachers' Retirement Association

A. Plan Description

All teachers employed by the District 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. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by *Minnesota Statutes* 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

Tier I:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- Normal retirement at age 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 factors 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).

Tier II:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% 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 5.5% per year.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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 which 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 yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #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 the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary during the fiscal year 2011 as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members during fiscal year 2011. Total covered payroll salaries for all TRA members state-wide during the fiscal year ended June 30, 2011 was approximately \$ 3.84 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2010 and 2009 were \$ 3.79 billion and \$ 3.76 billion, respectively. The District's contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were \$ 538,959, \$ 490,583 and \$ 489,911, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State 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 will rise 0.5% each year of the four year period. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

GERF members belong to either the Coordinated 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.

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

Two methods are used to compute benefits for 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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% 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 Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan 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. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (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 District makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the fiscal years ended June 30, 2012, 2011 and 2010 were \$ 203,286, \$ 202,330 and \$ 190,267, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2012, the District contributed \$ 406,076 to the plan.

As of June 30, 2010, the last valuation date, there were approximately 34 retirees receiving health benefits from the District's health plan. The plan has a total of 283 active participants and dependents. Of that total, 249 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Costs Obligation

The District's annual Other post employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The table on the following page shows the components of the District's annual OPEB costs for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Costs Obligation (Continued)

ARC	\$ 396,649
Interest on Net OPEB Obligation	2,506
Adjustment to ARC	<u>(3,477)</u>
Annual OPEB Cost	395,678
Contributions Made	<u>(406,076)</u>
Increase in Net OPEB Obligation	(10,398)
Net OPEB Obligation - Beginning of Year	55,696
Net OPEB Obligation - End of Year	<u><u>\$ 45,298</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the past three years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	\$ 395,678	\$ 406,076	103%	\$ 45,298
06/30/11	395,970	379,560	96%	55,696
06/30/10	446,963	496,626	111%	39,286

D. Funded Status and Funding Progress

As of the July 1, 2010 actuarial study, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,817,291 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,817,291. The covered payroll (annual payroll of active employees covered by the plan) was \$ 9,671,203, and the ratio of the UAAL to the covered payroll was 39.5%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, since GASB Statement No. 45 was implemented in fiscal year 2009, only two years of data are showing.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions

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

At the July 1, 2010 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 10% initially, reduced incrementally to an ultimate rate of 5% after 8 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
June 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
07/01/08	\$ -	\$ 4,123,809	\$ 4,123,809	0%	\$ 10,246,358	40.25%
07/01/10	-	3,817,291	3,817,291	0%	9,671,203	39.47%

* This Schedule was implemented in 2009 and the actuarial valuation has been updated once, therefore, contains only two years of data. See Note 9 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2012

	Special Revenue Funds		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments	\$ 187,171	\$ 620,537	\$ 807,708
Current Property Taxes Receivable	-	111,901	111,901
Delinquent Property Taxes Receivable	-	14,031	14,031
Accounts Receivable	1,423	-	1,423
Due from Department of Education	-	41,945	41,945
Due from Other Minnesota School Districts	-	4,772	4,772
Inventory	13,355	8,028	21,383
Prepaid Items	3,050	407	3,457
Total Assets	<u>\$ 204,999</u>	<u>\$ 801,621</u>	<u>\$ 1,006,620</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 405	\$ 25,217	\$ 25,622
Salaries and Benefits Payable	16,741	109,316	126,057
Due to Other Governmental Units	-	1,931	1,931
Deferred Revenue	25,993	105,434	131,427
Property Taxes Levied for Subsequent Year's Expenditures	-	107,441	107,441
Total Liabilities	<u>43,139</u>	<u>349,339</u>	<u>392,478</u>
Fund Balances			
Nonspendable	16,405	8,435	24,840
Restricted	145,455	443,847	589,302
Total Fund Balances	<u>161,860</u>	<u>452,282</u>	<u>614,142</u>
Total Liabilities and Fund Balances	<u>\$ 204,999</u>	<u>\$ 801,621</u>	<u>\$ 1,006,620</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Funds</u>	
	<u>Food Service</u>	<u>Community Service</u>		
REVENUES				
Local Property Taxes	\$ -	\$ 216,493	\$ 216,493	
Other Local and County Revenues	670	1,511,747	1,512,417	
Revenue from State Sources	38,926	135,205	174,131	
Revenue from Federal Sources	242,840	-	242,840	
Sales and Other Conversion of Assets	612,487	-	612,487	
Total Revenues	<u>894,923</u>	<u>1,863,445</u>	<u>2,758,368</u>	
EXPENDITURES				
Current				
Food Service	862,872	-	862,872	
Community Education and Services	-	1,821,567	1,821,567	
Capital Outlay				
Food Service	1,203	-	1,203	
Community Education and Services	-	12,511	12,511	
Total Expenditures	<u>864,075</u>	<u>1,834,078</u>	<u>2,698,153</u>	
Excess of Revenues Over Expenditures	30,848	29,367	60,215	
FUND BALANCES				
Beginning of Year	<u>131,012</u>	<u>422,915</u>	<u>553,927</u>	
End of Year	<u><u>\$ 161,860</u></u>	<u><u>\$ 452,282</u></u>	<u><u>\$ 614,142</u></u>	

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	2012			2011
	Budgeted Amounts		Variance with	Actual
	Original	Final	Final Budget - Over (Under)	Amounts
REVENUES				
Local Property Taxes				
Property Tax Levy	\$ 2,280,909	\$ 2,275,857	\$ 19,382	\$ 2,255,827
County Apportionment	60,000	64,900	5,470	75,566
Miscellaneous Taxes	10,000	12,450	3,623	15,414
Property Tax Shift	-	(131,331)	-	986,795
Total Local Property Taxes	2,350,909	2,221,876	28,475	3,333,602
Other Local and County Revenues				
Tuition and Fees	191,180	222,076	16,899	293,674
Interest	5,000	1,932	2,180	1,419
Other Local Revenues	89,000	499,685	40,511	403,410
Total Other Local and County Revenues	285,180	723,693	59,590	698,503
Revenue from State Sources				
General Education Aid	14,540,271	14,694,334	29,226	14,500,304
Endowment Fund	60,000	67,034	-	61,652
Special Education Aid	1,200,000	1,352,349	25,296	1,383,821
Educational Agricultural and Homestead Credit	31,676	36,884	(2)	31,676
Other Aids	83,000	213,700	8,025	(935,493)
Total Revenue from State Sources	15,914,947	16,364,301	62,545	15,041,960
Revenue from Federal Sources				
Education Jobs and Stabilization	229,808	267,138	-	147,754
Title I	69,382	69,451	(446)	52,556
Special Education	197,911	165,901	(3,338)	431,871
Other	50,226	49,751	500	59,386
Total Revenue from Federal Source	547,327	552,241	(3,284)	691,567
Sales and Other Conversion of Assets				
Local Sales and Other Conversion of Assets	2,300	10,106	85	7,341
Total Revenues	19,100,663	19,872,217	147,411	19,772,973
EXPENDITURES				
Administration				
Salaries and Wages	719,690	772,537	(2)	756,399
Employee Benefits	242,442	305,741	(112)	250,884
Purchased Services	11,180	12,051	2,268	20,307
Supplies and Materials	11,590	79,062	(12,822)	54,449
Capital Expenditures	7,500	5,215	(3,495)	5,142
Other Expenditures	25,570	14,720	(2)	14,398
Total Administration	1,017,972	1,189,326	(14,165)	1,101,579
District Support Services				
Salaries and Wages	224,104	217,467	(5,549)	219,941
Employee Benefits	88,033	85,407	(2,830)	84,345
Purchased Services	188,395	165,870	(66)	140,942
Supplies and Materials	16,000	7,241	(1)	7,205
Capital Expenditures	53,956	430	-	2,510
Other Expenditures	37,476	29,426	1,630	28,773
Total District Support Services	607,964	505,841	(6,816)	483,716

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	2012			2011
	Budgeted Amounts		Variance with	Actual
	Original	Final	Final Budget - Over (Under)	Amounts
EXPENDITURES				
Elementary and Secondary Regular Instruction				
Salaries and Wages	\$ 6,789,989	\$ 6,844,430	\$ (32,011)	\$ 6,710,813
Employee Benefits	2,375,667	2,500,698	(990)	2,408,830
Purchased Services	393,144	546,854	(12,052)	455,843
Supplies and Materials	260,451	504,637	(38,687)	381,279
Capital Expenditures	211,194	440,765	(77,112)	227,724
Other Expenditures	57,818	41,539	(4,538)	58,211
Total Elementary and Secondary Regular Instruction	10,088,263	10,878,923	(165,390)	10,242,700
Vocational Education Instruction				
Salaries and Wages	62,711	64,489	3	63,587
Employee Benefits	22,978	24,472	2	31,152
Purchased Services	190,200	215,846	(6)	160,772
Supplies and Materials	1,587	4,610	-	5,280
Total Vocational Education Instruction	277,476	309,417	(1)	260,791
Special Education Instruction				
Salaries and Wages	1,544,659	1,650,782	(118)	1,635,843
Employee Benefits	545,411	608,065	(223)	565,669
Purchased Services	183,630	167,867	(17)	180,732
Supplies and Materials	95,202	43,327	(2,864)	25,300
Capital Expenditures	-	9,874	-	9,918
Other Expenditures	9,000	11,908	(1,836)	18,478
Total Special Education Instruction	2,377,902	2,491,823	(5,058)	2,435,940
Instructional Support Services				
Salaries and Wages	476,176	380,548	(4)	401,403
Employee Benefits	169,822	126,817	(42)	121,556
Purchased Services	56,260	27,809	(6,396)	28,267
Supplies and Materials	357,158	56,349	(8,242)	56,469
Capital Expenditures	9,370	10,069	(2,174)	37,762
Other Expenditures	21,295	20,489	(1)	20,687
Total Instructional Support Services	1,090,081	622,081	(16,859)	666,144
Pupil Support Services				
Salaries and Wages	352,706	219,028	2	248,173
Employee Benefits	412,518	359,619	(6)	425,650
Purchased Services	1,330,100	1,359,415	(79)	1,342,514
Supplies and Materials	7,326	15,718	(401)	16,527
Capital Expenditures	-	2,203	(1,060)	180
Other Expenditures	1,673	1,423	-	1,652
Total Pupil Support Services	2,104,323	1,957,406	(1,544)	2,034,696

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	2012				2011
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
EXPENDITURES					
Sites and Buildings					
Salaries and Wages	\$ 664,555	\$ 658,967	\$ 650,892	\$ (8,075)	\$ 646,812
Employee Benefits	272,568	280,957	274,604	(6,353)	251,755
Purchased Services	661,537	569,137	545,533	(23,604)	555,383
Supplies and Materials	280,580	250,753	237,390	(13,363)	246,292
Capital Expenditures	120,000	274,728	274,059	(669)	270,923
Other Expenditures	100,000	-	-	-	-
Total Sites and Buildings	2,099,240	2,034,542	1,982,478	(52,064)	1,971,165
Fiscal and Other Fixed Cost Programs					
Purchased Services	78,385	74,075	74,028	(47)	68,857
Debt Service					
Principal	187,337	178,940	178,940	-	171,763
Interest and Fiscal Charges	95,745	104,142	104,143	1	111,319
Total Debt Service	283,082	283,082	283,083	1	283,082
Total Expenditures	20,024,688	20,346,516	20,084,573	(261,943)	19,548,670
Excess of Revenues Over (Under) Expenditures	(924,025)	(474,299)	(64,945)	409,354	224,303
OTHER FINANCING SOURCES					
Proceeds from Sale of Capital Assets	-	-	-	-	8,730
Net Change in Fund Balances	\$ (924,025)	\$ (474,299)	(64,945)	\$ 409,354	233,033
FUND BALANCES					
Beginning of Year			6,040,376		5,807,343
End of Year			\$ 5,975,431		\$ 6,040,376

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2012**

	2012			2011
	Budgeted Amounts		Actual	Actual
	Original	Final	Amounts	Amounts
REVENUES				
Other Local and County Revenues				
Interest	\$ 500	\$ 50	\$ 211	\$ 49
Other Local Revenues	500	371	459	1,626
Total Other Local and County Revenues	1,000	421	670	1,675
Revenue from State Sources				
Lunch Program Aid	38,440	38,630	38,926	39,830
Revenue from Federal Sources				
Lunch Aid Program	191,056	185,224	187,433	192,418
Food Distribution Program	55,500	47,494	55,407	33,934
Total Revenue from Federal Sources	246,556	232,718	242,840	226,352
Sales and Other Conversion of Assets				
Sale of Food	606,107	605,334	612,487	602,262
Total Revenues	892,103	877,103	894,923	870,119
EXPENDITURES				
Food Service				
Salaries and Wages	332,119	315,894	308,677	323,892
Employee Benefits	108,981	126,320	122,575	99,277
Purchased Services	26,300	28,940	25,434	21,485
Supplies and Materials	433,970	413,673	401,116	381,249
Capital Expenditures	-	1,203	1,203	19,536
Other Expenditures	4,733	5,073	5,070	4,643
Total Food Service	906,103	891,103	864,075	850,082
Excess of Revenues Over (Under) Expenditures	\$ (14,000)	\$ (14,000)	30,848	\$ 20,037
FUND BALANCES				
Beginning of Year			131,012	110,975
Ending of Year			\$ 161,860	\$ 131,012

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL COMMUNITY SERVICE FUND
For the Fiscal Year Ended June 30, 2012**

	2012			2011
	Budgeted Amounts		Variance with	Actual
	Original	Final	Final Budget - Over (Under)	Amounts
REVENUES				
Local Property Taxes				
Property Tax Levy	\$ 245,728	\$ 239,231	\$ (2,704)	\$ 215,723
Property Tax Shift	-	120,000	(20,034)	121,622
Total Local Property Taxes	245,728	359,231	(142,738)	337,345
Other Local and County Revenues				
Tuition and Fees	1,324,911	1,390,266	51,289	1,387,039
Interest	1,000	300	392	196
Other Local Revenues	54,500	81,933	(12,433)	84,551
Total Other Local and County Revenues	1,380,411	1,472,499	39,248	1,471,786
Revenue from State Sources				
Educational Agricultural and Homestead Credit	7,999	9,913	(2)	7,999
Other Aids	102,818	(15,307)	140,601	(13,033)
Total Revenue from State Sources	110,817	(5,394)	140,599	(5,034)
Total Revenues	1,736,956	1,826,336	37,109	1,804,097
EXPENDITURES				
Community Education and Services				
Salaries and Wages	1,084,544	1,141,019	2,793	1,068,258
Employee Benefits	283,730	282,650	(4,512)	259,728
Purchased Services	271,200	270,485	(5,328)	275,374
Supplies and Materials	111,068	135,509	(5,379)	106,965
Capital Expenditures	17,300	12,913	(402)	33,238
Other Expenditures	2,995	4,607	(277)	4,618
Total Expenditures	1,770,837	1,847,183	(13,105)	1,748,181
Excess of Revenues Over (Under) Expenditures	\$ (33,881)	\$ (20,847)	29,367	\$ 55,916
FUND BALANCES				
Beginning of Year			422,915	366,999
End of Year			\$ 452,282	\$ 422,915

INDEPENDENT SCHOOL DISTRICT NO. 271

SCHEDULE OF CHANGES IN AGENCY FUND

ASSETS AND LIABILITIES

For the Fiscal Year Ended June 30, 2012

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2012</u>
ASSETS				
Cash and Investments	<u>\$ 1,841</u>	<u>\$ 18,552</u>	<u>\$ 19,118</u>	<u>\$ 1,275</u>
LIABILITIES				
Accounts Payable	<u>\$ 1,841</u>	<u>\$ 18,552</u>	<u>\$ 19,118</u>	<u>\$ 1,275</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE

For the Fiscal Year Ended June 30, 2012

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 20,019,628	\$ 20,019,630	\$ (2)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	20,084,573	20,084,574	(1)	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	96,485	96,485	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	6,399	6,399	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	428,842	428,842	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	84,139	84,139	-	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	947,271	947,271	-	Total Revenue	\$ 2,316,579	\$ 2,316,579	\$ -
426 \$ 25 Taconite	-	-	-	Total Expenditures	2,332,012	2,332,013	(1)
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	732,539	732,540	(1)
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Prekindergarten	-	-	-	08 TRUST FUND			
451 QZAB Payments	-	-	-	Total Revenue	\$ 49,513	\$ 49,513	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	47,173	47,173	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Net Assets	25,179	25,179	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	183,029	183,029	-	Total Revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	482,364	482,363	1	422 Net Assets	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance	3,746,902	3,746,901	1	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ -	\$ -	\$ -
02 FOOD SERVICES FUND				Total Expenditures	-	-	-
Total Revenue	\$ 894,923	\$ 894,926	\$ (3)	<i>Unassigned:</i>			
Total Expenditures	864,075	864,077	(2)	422 Net Assets	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	16,405	16,405	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	145,455	145,455	-	422 Net Assets	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	-	-	-
Total Revenue	\$ 1,863,445	\$ 1,863,448	\$ (3)	<i>Nonspendable:</i>			
Total Expenditures	1,834,078	1,834,080	(2)	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	8,435	8,435	-	464 Restricted Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	435,279	435,276	3				
432 ECFE	2,517	2,517	-				
444 School Readiness	1,834	1,834	-				
447 Adult Basic Education	966	966	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	3,251	3,252	(1)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2012

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	\$ 55,407
School Breakfast	10.553	8,265
Milk	10.556	3,477
Type A Lunch	10.555	<u>175,691</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		242,840
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	69,006
Title II, Part A - Improving Teacher Quality	84.367	49,752
ARRA Education Jobs	84.410	267,136
Through Meeker and Wright Special Education Cooperative No. 938:		
Special Education Cluster:		
Special Education	84.027	147,787
Discretionary Continuous Improvement Monitoring Process	84.027	1,000
Discretionary Professional Development	84.173	495
Preschool Grants	84.173	<u>13,283</u>
Total Special Education Cluster		<u>162,565</u>
Total U.S. Department of Education		<u>548,459</u>
Federal Department of Health and Human Services		
Received Direct:		
Early Retiree Reinsurance Program	93.519	<u>500</u>
Total Federal Expenditures		<u>\$ 791,799</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are received.



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**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 School Board
Independent School District No. 879
Delano, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the fiscal year ending June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* that we consider to be a significant deficiency in internal control over financial reporting, as Audit Finding 11-01. A significant deficiency is a deficiency, or 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.



COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the District in a separate letter dated October 17, 2012.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere Ltd".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 17, 2012



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

To the School Board
Independent School District No. 879
Delano, Minnesota

COMPLIANCE

We have audited the compliance of Independent School District No. 879, Delano, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the fiscal year ended June 30, 2012. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Independent School District No. 879, Delano, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the fiscal year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.



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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Education, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 17, 2012

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Findings 11-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	84.410
Name of Federal Program or Cluster:	ARRA Education Jobs
CFDA No.:	10.553, 10.555, 10.556
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the fiscal year ended June 30, 2012, the District had a lack of segregation of accounting duties due to a limited number of office employees. Examples of the lack of segregation of accounting duties include but are not limited to:

- The District Accountant enters bank deposit amounts in Skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all accounting duties, the costs of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.
3. Official Responsible for Ensuring CAP
Matthew Schoen is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.



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REPORT ON LEGAL COMPLIANCE

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the Office of the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Education, administration and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kern DeWenter, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 17, 2012