

INDEPENDENT SCHOOL DISTRICT NO. 879
Delano, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

INDEPENDENT SCHOOL DISTRICT NO. 879

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INDEPENDENT SCHOOL DISTRICT NO. 879
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2013

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Amy Johnson	Chairperson	December 31, 2016
Randy Durick	Vice Chairperson	December 31, 2016
Carolyn Milano	Clerk	December 31, 2014
Lisa Seguin	Treasurer	December 31, 2014
Mark Larson	Director	December 31, 2014
Sarah Baker	Director	December 31, 2016
Corey Black	Director	December 31, 2014

<u>Administration</u>	
Matthew Schoen	Superintendent
Mary Reeder	Business Manager



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2013, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63 and 65

As discussed in Note 10 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America 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 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, 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* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which such partial information was derived.

We also have previously audited the District's 2012 basic financial statements and our report, dated October 17, 2012, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 6, 2013

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. 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 Governmental Accounting Standard Board's (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 (2012-2013) and the prior year (2011-2012) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- *General Fund 01:* - The overall fund balance increased by \$ 435,339.
- *Food Service Fund 02:* - The overall fund balance increased by \$ 43,068.
- *Community Service Fund 04:* - The overall fund balance decreased by \$ 1,807.
- *Debt Service Fund 07:* - The overall fund balance increased by \$ 16,591.

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 the management's discussion and analysis (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.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

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 Position 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 position and how they have changed. Net position – 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 position is 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 it is properly using certain revenues (e.g., federal grants).

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Fund Financial Statements (Continued)

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.

- **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.

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

	Net Position Table A-1		
	Governmental Activities		
	2013	2012	Percentage Change
Current and Other Assets	\$14,167,771	\$13,322,776	6.34%
Capital Assets	28,907,006	29,802,403	-3.00%
Total Assets	43,074,777	43,125,179	-0.12%
Current Liabilities	2,716,475	2,748,119	-1.15%
Long-Term Liabilities	24,594,443	26,109,382	-5.80%
Total Liabilities	27,310,918	28,857,501	-5.36%
Deferred Inflows of Resources	3,538,470	3,464,495	2.14%
Net Position:			
Invested in Capital Assets, Net of Related Debt	4,343,918	3,693,021	17.63%
Restricted	2,747,705	2,509,444	9.49%
Unrestricted	5,133,766	4,600,718	11.58%
Net Position	\$ 12,225,389	\$ 10,803,183	13.16%

The District's combined Net Position was \$ 12,225,389 on June 30, 2013, an increase of \$ 1,422,206. (See Table A-1.)

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2013

Changes in Net Position

The following Table A-2 presents the change in Net Position of the District:

Change in Net Position

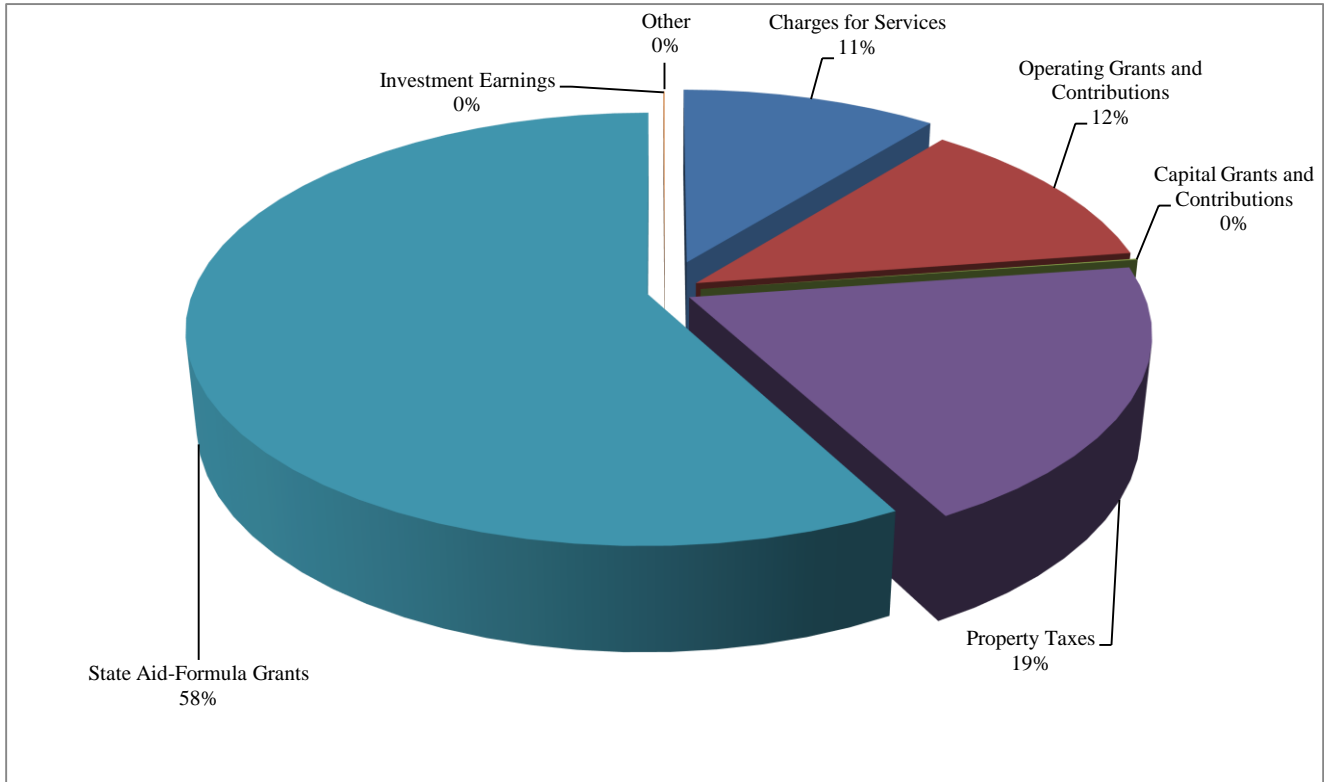
Table A-2

	Governmental Activities for the Year Ended June, 30		Total Percentage Change
	2013	2012	
REVENUES			
Program Revenues:			
Charges for Services	\$ 2,745,775	\$ 2,394,772	14.66%
Operating Grants and Contributions	3,035,665	2,867,363	5.87%
Capital Grants and Contributions	21,245	40,186	-47.13%
General Revenues:			
Property Taxes	4,975,844	4,703,860	5.78%
State Aid-Formula Grants	14,769,220	14,827,722	-0.39%
Investment Earnings	12,446	6,545	90.16%
Other	48	267,638	-99.98%
Total Revenues	25,560,243	25,108,086	1.80%
EXPENDITURES			
Administration	1,046,485	1,173,732	-10.84%
District Support Services	506,073	501,048	1.00%
Elementary and Secondary Regular Instruction	10,618,138	10,709,391	-0.85%
Vocational Education Instruction	264,378	309,408	-14.55%
Special Education Instruction	2,574,386	2,485,459	3.58%
Instructional Support Services	745,413	604,816	23.25%
Pupil Support Services	1,917,102	1,963,145	-2.35%
Sites and Buildings	1,940,776	2,642,344	-26.55%
Fiscal and Other Fixed Cost Programs	92,345	74,028	24.74%
Food Service	895,174	864,067	3.60%
Community Education and Services	2,026,675	1,844,625	9.87%
Unallocated Depreciation	805,608	-	-
Interest and Fiscal Charges on Long-Term Debt	1,064,234	1,121,344	-5.09%
Total Expenditures	24,496,787	24,293,407	0.84%
Increase/(Decrease) in Net Position	1,063,456	814,679	30.54%
Beginning of Year Net Position	10,803,183	9,988,504	8.16%
Prior Period Adjustment	358,750	-	
End of Year Net Position	\$ 12,225,389	\$ 10,803,183	13.16%

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

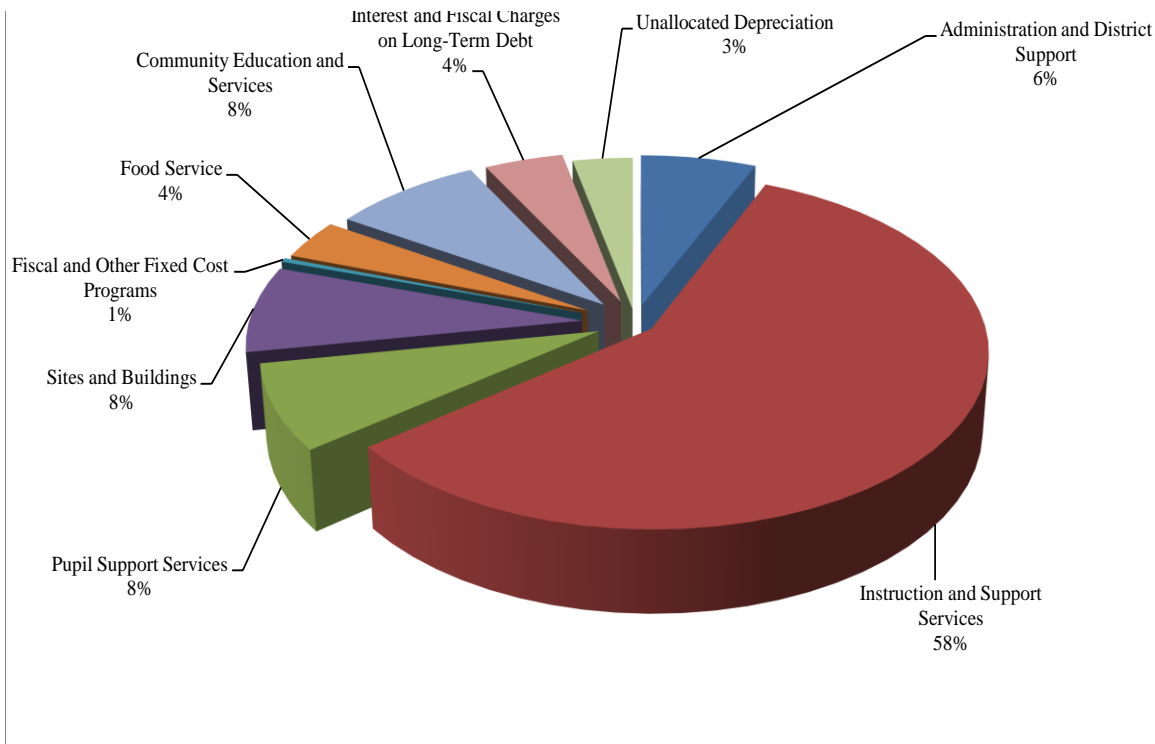
The District's total revenues were \$ 25,560,243 for the year ended June 30, 2013. Property taxes and state aid-formula grants accounted for 77% of total revenue for the year. (See Figure A-1). The remaining 23% came from other program revenues (charges for services and operating and capital grants and 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, 2013

Figure A-2 District Expenses for Fiscal 2012



The total costs of all programs and services was \$ 24,496,787 for fiscal year 2013. 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 4%, and 8% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was \$ 24,496,787.

- Some of the cost was paid by the users of the District's programs - \$ 2,745,775
- The federal and state governments subsidized certain programs with grants and contributions - \$ 3,056,910
- Most of the District's costs - \$ 18,694,102, 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 Food Service and Community Education. 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, 2013

NET COST OF GOVERNMENTAL ACTIVITIES

Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2013	2012	2012-2013	2013	2012	2012-2013
Administration	\$ 1,046,485	\$ 1,173,732	-10.84%	\$ 991,255	\$ 1,117,922	-11.33%
District Support Services	506,073	501,048	1.00%	477,177	488,409	-2.30%
Elementary and Secondary Regular Education	10,618,138	10,709,391	-0.85%	9,770,725	9,922,682	-1.53%
Vocational Education Instruction	264,378	309,408	-14.55%	264,025	309,408	-14.67%
Special Education Instruction	2,574,386	2,485,459	3.58%	848,268	915,659	-7.36%
Instructional Support Services	745,413	604,816	23.25%	732,853	586,934	24.86%
Pupil Support Services	1,917,102	1,963,145	-2.35%	1,855,727	1,886,567	-1.63%
Sites and Buildings	1,940,776	2,642,344	-26.55%	1,618,029	2,370,361	-31.74%
Fiscal and Other Fixed Cost Programs	92,345	74,028	24.74%	92,345	74,028	24.74%
Food Service	895,174	864,067	3.60%	(45,560)	(30,645)	48.67%
Community Education and Services	2,026,675	1,844,625	9.87%	219,416	228,417	-3.94%
Unallocated Depreciation	805,608	-		805,608		
Interest and Fiscal Charges on Long-Term Debt	1,064,234	1,121,344	-5.09%	1,064,234	1,121,344	-5.09%
Total	\$ 24,496,787	\$ 24,293,407	0.84%	\$ 18,694,102	\$ 18,991,086	-1.56%

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 expenses to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds is shown on page 23 and shows a net change in Position of \$ 1,063,456.

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 year, its governmental funds reported a combined fund balance of \$ 7,815,303, an increase of \$ 493,191 over last year's ending fund balance of \$ 7,322,112.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Revenues and other financing sources for the District's governmental funds were \$ 25,720,170, while total expenditures and other financing uses were \$ 25,226,979, for a positive net change of \$ 493,191.

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		Amount of	Percent
	June 30,		Increase	Increase
	2013	2012	(Decrease)	(Decrease)
LOCAL SOURCES				
Property Taxes	\$ 2,543,612	\$ 2,250,351	\$ 293,261	13.03%
Other Local and County Sources	897,607	783,283	114,324	14.60%
State Sources	16,573,237	16,426,846	146,391	0.89%
Federal Sources	317,273	548,957	(231,684)	-42.20%
Sales and Other Conversion of Assets	10,922	10,191	731	7.17%
Total General Fund Revenue	\$ 20,342,651	\$ 20,019,628	\$ 323,023	1.61%

Revenues from the General Fund totaled \$ 20,342,651, an increase of 1.61% over the preceding 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 increased due to additional property tax shift dollars that had to be recognized in 2012-2013. Other local and county sources increased due to increased parking, activity, athletics and College in the Schools fees implemented in the 2012-2013 school year. The change in state sources of revenue was due to increased enrollment, which increased general education aid, as well, as increased special education expenditures, which in turn, increased state special education revenue. The change in federal sources was due to one-time federal education jobs funds received in the 2011-2012 school year.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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
	2013	2012	(Decrease)	(Decrease)
Salaries	\$ 10,745,007	\$ 10,762,494	\$ (17,487)	-0.16%
Employee Benefits	4,254,065	4,281,222	(27,157)	-0.63%
Purchased Services	3,116,336	3,098,925	17,411	0.56%
Supplies and Materials	1,050,675	885,317	165,358	18.68%
Capital Expenditures	372,740	658,774	(286,034)	-43.42%
Other Expenditures	428,717	397,841	30,876	7.76%
Total General Fund Expenditure	\$ 19,967,540	\$ 20,084,573	\$ (117,033)	-0.58%

Total General Fund expenditures decrease by \$ 117,033 or 0.58% over the previous year.

Supplies and materials increased due to curriculum purchasing that occurred in the summer of 2013. Capital expenditures decreased because the Community Education boiler had been replaced in the 2011-2012 school year.

In 2012-2013, the General Fund recorded a surplus of \$ 375,111. The unassigned fund balance closed at \$ 3,881,475, which is 19% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2013, the District is in compliance with that fund balance goal.

GENERAL FUND

General Fund Budgetary Highlights

Actual revenues were \$ 125,556 over the final budget, a 0.62% variance. Actual expenditures were \$ 266,868 under budget, a 1.32% variance. The variance between original and final budgeted revenue amounts was due to funds received to offset specific expenses (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.

INDEPENDENT SCHOOL DISTRICT NO. 879

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

DEBT SERVICE FUND

The Debt Service Fund revenues exceeded expenditures by \$ 16,591 in 2012-2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to \$ 28,907,006 (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**

	2013	2012	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	1,874,378	1,795,473	4.39%
Capital Lease	3,178,525	3,178,525	0.00%
Less Accumulated Depreciation	(15,954,892)	(14,980,590)	6.50%
Total	<u>\$ 28,907,006</u>	<u>\$ 29,802,403</u>	<u>-3.00%</u>

Long-Term Liabilities

At year-end, the District had \$ 24,594,443 in total long-term debt, a decrease of 5.64% 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**

	2013	2012	Percentage Change
General Obligation Bonds Payable	\$ 22,235,000	\$ 23,585,000	-5.72%
Capital Lease Payable	2,328,088	2,457,724	-5.27%
Compensated Absences Payable	31,355	21,360	46.79%
Total	<u>\$ 24,594,443</u>	<u>\$ 26,064,084</u>	<u>-5.64%</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 1.5% increase for the 2013-2014 and the 2014-2015 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 \$ 919.00 per student. The District currently has authority to levy \$ 1,062.78 but the District currently only levies for \$ 751.86 per student, which is \$ 167.00 below the state average. The additional \$ 310.92 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 2012 voter-approved excess operating referendums of \$ 426.86 and \$ 325.00.

On November 6, 2012, Delano Public Schools asked for and received voter approval to renew the current excess operating levy referendum of \$ 426.86 that was set to expire in 2012, and approve an additional \$ 325.00 per student for ten years. The increase in amount will be used to maintain existing student programs.

The District had a healthy General fund balance at the end of 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 2012-2013 increased by 38 students from 2011-2012, and the District is projecting enrollment to increase by 20 students in the 2013-2014 school year. 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 #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities
ASSETS	
Cash and Investments	
(Including Cash Equivalents)	\$ 8,667,748
Current Property Taxes Receivable	2,474,021
Delinquent Property Taxes Receivable	197,068
Accounts Receivable	5,323
Interest Receivable	3,507
Due from Department of Education	2,157,323
Due from Federal Government through Department of Education	28,876
Due from Other Minnesota School Districts	84,986
Due from Other Governmental Units	20,922
Inventory	39,955
Prepaid Items	100,248
Equity Interest in Joint Venture	358,798
Net Other Post Employment Benefits (OPEB) Asset	28,996
Capital Assets, Not being Depreciated:	
Land	1,022,151
Capital Assets, Net of Accumulated Depreciation:	
Land Improvements	749,382
Buildings	26,397,349
Machinery and Equipment	738,124
	<hr/>
Total Assets	<u><u>\$ 43,074,777</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	\$ 114,653
Salaries and Benefits Payable	1,933,941
Interest Payable	383,672
Due to Other Minnesota School Districts	59,518
Due to Other Governmental Units	61,033
Unearned Revenue	163,658
Bonds Payable:	
Payable Within One Year	1,395,000
Payable After One Year	20,840,000
Capital Lease Payable:	
Payable Within One Year	204,624
Payable After One Year	2,123,464
Vacation Payable:	
Payable Within One Year	31,355
Total Liabilities	<hr/> <u>27,310,918</u>
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	3,538,470
Net Position	
Net Investment in Capital Assets	4,343,918
Restricted for:	
Debt Service	412,532
Other Purposes	2,335,173
Unrestricted	5,133,766
Total Net Position	<hr/> <u>12,225,389</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 43,074,777</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenues and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					Governmental Activities
Administration	\$ 1,046,485	\$ -	\$ 55,230	\$ -	\$ (991,255)
District Support Services	506,073	685	28,211	-	(477,177)
Elementary and Secondary Regular Instruction	10,618,138	375,980	450,188	21,245	(9,770,725)
Vocational Education Instruction	264,378	-	353	-	(264,025)
Special Education Instruction	2,574,386	64,647	1,661,471	-	(848,268)
Instructional Support Services	745,413	-	12,560	-	(732,853)
Pupil Support Services	1,917,102	-	61,375	-	(1,855,727)
Sites and Buildings	1,940,776	9,600	313,147	-	(1,618,029)
Fiscal and Other Fixed Cost Programs	92,345	-	-	-	(92,345)
Food Service	895,174	630,797	309,937	-	45,560
Community Education and Services	2,026,675	1,664,066	143,193	-	(219,416)
Unallocated Depreciation	805,608	-	-	-	(805,608)
Interest and Fiscal Charges on Long-Term Debt	1,064,234	-	-	-	(1,064,234)
Total Governmental Activities	\$ 24,496,787	\$ 2,745,775	\$ 3,035,665	\$ 21,245	\$ (18,694,102)
General Revenues					
Taxes:					
Property Taxes, Levied for General Purposes					\$ 2,493,798
Property Taxes, Levied for Community Service					189,368
Property Taxes, Levied for Debt Service					2,292,678
State Aid-Formula Grants					14,769,220
Investment Income					12,446
Net Income from Joint Venture					48
Total General Revenues					19,757,558
Change in Net Position					1,063,456
Net Position - Beginning, as Previously Stated					10,803,183
Prior Period Adjustment					358,750
Net Position - Beginning, Restated					11,161,933
Net Position - Ending					\$ 12,225,389

INDEPENDENT SCHOOL DISTRICT NO. 879

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 6,034,774	\$ 1,743,951	\$ 889,023	\$ 8,667,748
Current Property Taxes Receivable	1,354,727	1,033,197	86,097	2,474,021
Delinquent Property Taxes Receivable	88,878	99,322	8,868	197,068
Accounts Receivable	5,323	-	-	5,323
Interest Receivable	3,507	-	-	3,507
Due from Department of Education	2,139,860	1,994	15,469	2,157,323
Due from Federal Government through Department of Education	18,032	-	10,844	28,876
Due from Other Minnesota School Districts	78,854	-	6,132	84,986
Due from Other Governmental Units	20,922	-	-	20,922
Inventory	9,942	-	30,013	39,955
Prepaid Items	95,257	-	4,991	100,248
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 9,850,076</u>	<u>\$ 2,878,464</u>	<u>\$ 1,051,437</u>	<u>\$ 13,779,977</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 97,385	\$ -	\$ 17,268	\$ 114,653
Salaries and Benefits Payable	1,777,823	-	156,118	1,933,941
Due to Other Minnesota School Districts	59,518	-	-	59,518
Due to Other Governmental Units	56,130	-	4,903	61,033
Unearned Revenue	39,308	-	124,350	163,658
Total Liabilities	<u>2,030,164</u>	<u>-</u>	<u>302,639</u>	<u>2,332,803</u>
Deferred Inflows of Resources				
Property Taxes Levied for Subsequent Year's Expenditures	1,367,018	2,082,260	89,192	3,538,470
Unavailable Revenue - Delinquent Property Taxes	42,124	47,074	4,203	93,401
Total Deferred Inflows of Resources	<u>1,409,142</u>	<u>2,129,334</u>	<u>93,395</u>	<u>3,631,871</u>
Fund Balances				
Nonspendable	105,199	-	35,004	140,203
Restricted	1,675,567	749,130	620,399	3,045,096
Committed	170,387	-	-	170,387
Assigned	578,142	-	-	578,142
Unassigned	3,881,475	-	-	3,881,475
Total Fund Balances	<u>6,410,770</u>	<u>749,130</u>	<u>655,403</u>	<u>7,815,303</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,850,076</u>	<u>\$ 2,878,464</u>	<u>\$ 1,051,437</u>	<u>\$ 13,779,977</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
June 30, 2013**

Total Fund Balance - Governmental Funds \$ 7,815,303

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Equity interests in underlying capital assets of joint ventures are not reported in the
funds because they do not represent current assets.

Equity Interest in Joint Venture - Wright Technical Center 358,798

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 44,861,898

Less Accumulated Depreciation (15,954,892)

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 (22,235,000)

Capital Lease Payable (2,328,088)

Vacation Payable (31,355)

Net OPEB Asset 28,996

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.

93,401

Governmental funds do not report a liability for accrued interest on bonds
and capital loans until due and payable.

(383,672)

Total Net Position - Governmental Activities

\$ 12,225,389

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Taxes	\$ 2,543,612	\$ 2,336,963	\$ 195,016	\$ 5,075,591
Other Local and County Revenues	897,607	2,467	1,710,703	2,610,777
Revenue from State Sources	16,573,237	14,664	157,525	16,745,426
Revenue from Federal Sources	317,273	-	271,260	588,533
Sales and Other Conversion of Assets	10,922	-	628,693	639,615
Total Revenues	<u>20,342,651</u>	<u>2,354,094</u>	<u>2,963,197</u>	<u>25,659,942</u>
EXPENDITURES				
Current				
Administration	1,032,782	-	-	1,032,782
District Support Services	504,395	-	-	504,395
Elementary and Secondary Regular Instruction	10,381,204	-	-	10,381,204
Vocational Education Instruction	265,192	-	-	265,192
Special Education Instruction	2,573,183	-	-	2,573,183
Instructional Support Services	726,119	-	-	726,119
Pupil Support Services	1,913,632	-	-	1,913,632
Sites and Buildings	1,818,422	-	-	1,818,422
Fiscal and Other Fixed Cost Programs	92,345	-	-	92,345
Food Service	-	-	898,044	898,044
Community Education and Services	-	-	2,004,732	2,004,732
Capital Outlay				
Administration	4,001	-	-	4,001
District Support Services	6,824	-	-	6,824
Elementary and Secondary Regular Instruction	248,696	-	-	248,696
Special Education Instruction	10,450	-	-	10,450
Instructional Support Services	20,888	-	-	20,888
Pupil Support Services	1,800	-	-	1,800
Sites and Buildings	80,081	-	-	80,081
Community Education and Services	-	-	19,160	19,160
Debt Service				
Principal	190,002	1,350,000	-	1,540,002
Interest and Fiscal Charges	97,524	987,503	-	1,085,027
Total Expenditures	<u>19,967,540</u>	<u>2,337,503</u>	<u>2,921,936</u>	<u>25,226,979</u>
Excess of Revenues Over Expenditures	375,111	16,591	41,261	432,963
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	495	-	-	495
Proceeds from Capital Leases	59,733	-	-	59,733
Total Other Financing Sources (Uses)	<u>60,228</u>	<u>-</u>	<u>-</u>	<u>60,228</u>
Net Change in Fund Balances	435,339	16,591	41,261	493,191
FUND BALANCES				
Beginning of Year	<u>5,975,431</u>	<u>732,539</u>	<u>614,142</u>	<u>7,322,112</u>
End of Year	<u>\$ 6,410,770</u>	<u>\$ 749,130</u>	<u>\$ 655,403</u>	<u>\$ 7,815,303</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 Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$ 493,191
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.	48
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	78,905
Depreciation Expense	(974,302)
Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(9,995)
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	1,350,000
Capital Lease Payable	189,369
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.	21,426
Proceeds from the issuance of debt is recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.	
Capital Lease Payable	(59,733)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	74,294
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.	(99,747)
Change in Net Position - Governmental Activities	<u>\$ 1,063,456</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Over (Under)</u>
REVENUES				
Local Property Taxes	\$ 3,145,980	\$ 2,523,794	\$ 2,543,612	\$ 19,818
Other Local and County Revenues	363,510	821,765	897,607	75,842
Revenue from State Sources	15,655,621	16,542,702	16,573,237	30,535
Revenue from Federal Sources	338,088	317,911	317,273	(638)
Sales and Other Conversion of Assets	5,100	10,923	10,922	(1)
Total Revenues	<u>19,508,299</u>	<u>20,217,095</u>	<u>20,342,651</u>	<u>125,556</u>
EXPENDITURES				
Current				
Administration	970,448	1,038,763	1,032,782	(5,981)
District Support Services	658,501	524,833	504,395	(20,438)
Elementary and Secondary Regular Instruction	9,932,454	10,492,650	10,381,204	(111,446)
Vocational Education Instruction	290,035	264,932	265,192	260
Special Education Instruction	2,393,269	2,579,481	2,573,183	(6,298)
Instructional Support Services	1,051,241	726,757	726,119	(638)
Pupil Support Services	2,139,309	1,914,799	1,913,632	(1,167)
Sites and Buildings	1,848,305	1,875,360	1,818,422	(56,938)
Fiscal and Other Fixed Cost Programs	88,385	92,346	92,345	(1)
Capital Outlay				
Administration	13,750	4,183	4,001	(182)
District Support Services	34,000	6,825	6,824	(1)
Elementary and Secondary Regular Instruction	217,608	275,475	248,696	(26,779)
Special Education Instruction	-	10,450	10,450	-
Instructional Support Services	9,370	20,907	20,888	(19)
Pupil Support Services	1,100	1,800	1,800	-
Sites and Buildings	127,000	117,321	80,081	(37,240)
Debt Service				
Principal	186,416	190,003	190,002	(1)
Interest and Fiscal Charges	96,666	97,523	97,524	1
Total Expenditures	<u>20,057,857</u>	<u>20,234,408</u>	<u>19,967,540</u>	<u>(266,868)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (549,558)</u>	<u>\$ (17,313)</u>	\$ 375,111	<u>\$ 392,424</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	495	495	-
Proceeds from Capital Leases	-	59,733	59,733	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>60,228</u>	<u>60,228</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (549,558)</u>	<u>\$ 42,915</u>	435,339	<u>\$ 392,424</u>
FUND BALANCES				
Beginning of Year			<u>5,975,431</u>	
End of Year			<u>\$ 6,410,770</u>	

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

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and Investments	<u>\$ 1,792</u>	<u>\$ 31,104</u>
LIABILITIES		
Accounts Payable	<u>\$ 1,792</u>	<u>\$ -</u>
NET POSITION		
Held in Trust for Scholarships	<u>\$ -</u>	<u>\$ 31,104</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2013

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Other Local Revenues	\$ 55,984
DEDUCTIONS	
Pupil Support Services	<u>50,059</u>
Change in Net Position	5,925
NET POSITION	
Beginning of Year	<u>25,179</u>
End of Year	<u>\$ 31,104</u>

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INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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 accounting principles generally accepted in the United States of America 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.

Joint Venture

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 12.

B. Basic Financial Statement Information

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of 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 accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

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.

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, 2013

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, 2013

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 2012, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2013. 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. 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.

K. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

L. 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. 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 years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2013.

N. 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.

O. Net Position

Net position represent the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets 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 position is 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.

P. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. 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, 2013

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 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 accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

B. Expenditures in Excess of Budget

The following fund had expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>
Community Service	\$ 1,956,620	\$ 2,023,892

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, 2013, 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, 2013 were comprised of checking accounts with a carrying amount of \$ 555,263 and a book balance of \$ 408,903.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of June 30, 2013, the District had the following investments:

		Weighted Maturity (Years)	Rating
MSDLAF	\$ 1,222,130	N/A	AAA
MSDLAF Max	1,094,228	N/A	AAA
MNTrust Investment Share Portfolio	250,357	N/A	Aaa
Negotiable Certificates of Deposit	2,988,376	0.38	N/A
MNTrust Term Series	<u>2,736,000</u>	0.28	N/A
Total Investments	<u>\$ 8,291,091</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 following investments represented a position that is in excess of five percent of the total investments: MNTrust Series 20140110AA09, MNTrust Series 20140129AB09 and MNTrust Series 20131219AA09.

Summary of deposits and investments as of June 30, 2013:

Deposits (Note 3.A.)	\$ 408,903
Petty Cash	650
Investments (Note 3.B.)	<u>8,291,091</u>
Total Deposits and Investments	<u>\$ 8,700,644</u>

Deposits and investments are presented in the June 30, 2013 basic financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 8,667,748
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Statement of Fiduciary Net Position:

Cash and Investments - Agency Fund	1,792
Cash and Investments - Private Purpose Trust Fund	<u>31,104</u>

Total Deposits and Investments	<u>\$ 8,700,644</u>
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INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2013

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,022,151	\$ -	\$ -	\$ 1,022,151
Capital Assets being Depreciated:				
Improvements	1,574,775	-	-	1,574,775
Buildings	40,390,594	-	-	40,390,594
Equipment	1,795,473	78,905	-	1,874,378
Total Capital Assets being Depreciated	43,760,842	78,905	-	43,839,747
Less Accumulated Depreciation for:				
Improvements	815,296	10,097	-	825,393
Buildings	13,174,897	818,348	-	13,993,245
Equipment	990,397	145,857	-	1,136,254
Total Accumulated Depreciation	14,980,590	974,302	-	15,954,892
Total Capital Assets being Depreciated, Net	28,780,252	(895,397)	-	27,884,855
Governmental Activities, Capital Assets, Net	\$ 29,802,403	\$ (895,397)	\$ -	\$ 28,907,006

Depreciation expense for the year ended June 30, 2013 was charged to the following functions:

Administration	\$ 12,558
Elementary and Secondary Regular Instruction	32,879
Pupil Support Services	8,218
Sites and Buildings	104,275
Community Service	10,764
Unallocated	805,608
Total Depreciation Expense	\$ 974,302

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2013

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	\$ 16,730,000	\$ 1,100,000
G.O. Alternative Facilities Bonds, Series 2008A	04/23/08	3.50%-4.625%	4,865,000	02/01/28	4,240,000	145,000
G.O. Capital Facilities Bonds, Series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	490,000	90,000
G.O. Bonds, Series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	775,000	60,000
Total G.O. Bonds					<u>22,235,000</u>	<u>1,395,000</u>
Capital Leases					2,328,088	204,624
Vacation Payable					<u>31,555</u>	<u>31,555</u>
Total all Long-Term Liabilities					<u>\$ 24,594,643</u>	<u>\$ 1,631,179</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	\$ 23,585,000	\$ -	\$ 1,350,000	\$ 22,235,000
Capital Leases	2,457,724	59,733	189,369	2,328,088
Vacation Payable	<u>21,360</u>	<u>9,995</u>	<u>-</u>	<u>31,355</u>
Total Long-Term Liabilities	<u>\$ 26,064,084</u>	<u>\$ 69,728</u>	<u>\$ 1,539,369</u>	<u>\$ 24,594,443</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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
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	1,635,000	700,573	2,335,573
2019-2023	9,260,000	2,430,113	11,690,113
2024-2028	5,420,000	501,467	5,921,467
Total	<u>\$ 22,235,000</u>	<u>\$ 7,027,368</u>	<u>\$ 29,262,368</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. In addition, on January 25, 2013 the district entered into a capital lease agreement for copiers with US Bank Equipment Finance. The capital lease agreement includes monthly principal and interest payments of \$1,100 for each of the 5 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,	
2014	\$ 296,415
2015	296,415
2016	296,415
2017	296,415
2018	291,970
2019-2023	<u>1,344,640</u>
Total Lease Payments	<u>2,822,270</u>
Less Amount Representing Interest	<u>494,182</u>
Present Value of Capital Lease	<u>\$ 2,328,088</u>

The assets acquired with the capital leases have a cost of \$ 3,238,258 and accumulated depreciation of \$ 339,718 for a net value of \$ 2,898,540.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 –FUND BALANCES/NET POSITION

Fund Equity

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Nonspendable for:				
Inventory	\$ 9,942	\$ -	\$ 30,013	\$ 39,955
Prepays Items	95,257	-	4,991	100,248
Total Nonspendable	<u>105,199</u>	<u>-</u>	<u>35,004</u>	<u>140,203</u>
Restricted/Reserved for:				
Deferred Maintenance	555,366	-	-	555,366
Health and Safety	55,198	-	-	55,198
Operating Capital	1,065,003	-	-	1,065,003
Debt Service	-	749,130	-	749,130
Food Service	-	-	180,192	180,192
Community Education	-	-	432,953	432,953
Early Childhood and Family Education	-	-	1,882	1,882
Adult Basic Education	-	-	966	966
Community Service	-	-	4,406	4,406
Total Restricted/Reserved	<u>1,675,567</u>	<u>749,130</u>	<u>620,399</u>	<u>3,045,096</u>
Committed for:				
Separation/Retirement Benefits	170,387	-	-	170,387
Assigned for:				
Donated Funds	190,147	-	-	190,147
Student Activities	20,562	-	-	20,562
Technology and Security	245,600	-	-	245,600
Q Comp	121,833	-	-	121,833
Total Assigned	<u>578,142</u>	<u>-</u>	<u>-</u>	<u>578,142</u>
Unassigned	<u>3,881,475</u>	<u>-</u>	<u>-</u>	<u>3,881,475</u>
Total Reserved Fund Balance	<u><u>\$ 6,410,770</u></u>	<u><u>\$ 749,130</u></u>	<u><u>\$ 655,403</u></u>	<u><u>\$ 7,815,303</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 6 –FUND BALANCES/NET POSITION

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 Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1. para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

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 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.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB) and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 6 –FUND BALANCES/NET POSITION

Fund Equity (Continued)

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 Technology and Security – This balance represents resources segregated from unassigned fund balances for technology and security projects.

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

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total positive net position 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, 2013

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 5.4% per year.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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.minnesotatra.org. 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 6.0% and 9.5%, respectively, of their annual covered salary during year 2012 as employee contributions. The TRA employer contribution rates are 6.0% for Coordinated Plan members and 10.0% for Basic Plan members during 2012. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2012 was approximately \$ 3.87 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2011 and 2010 were \$ 3.84 billion and \$ 3.79 billion, respectively. The District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$ 579,640, 538,959, and \$ 490,583, 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, 2013

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, 2013

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 years ended June 30, 2013, 2012 and 2011 were \$ 210,225, \$ 203,286, and \$ 202,330, 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 2013, the District contributed \$ 435,682 to the plan.

As of June 30, 2012, the last valuation date, there were approximately 34 retirees receiving health benefits from the District's health plan. The plan has a total of 263 active participants and dependents. Of that total, 229 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, 2013

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

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

ARC	\$ 362,265
Interest on Net OPEB Obligation	2,038
Adjustment to ARC	(2,915)
Annual OPEB Cost	361,388
Contributions Made	(435,682)
Increase in Net OPEB Obligation	(74,294)
Net OPEB Obligation - Beginning of Year	45,298
Net OPEB Obligation - End of Year	<u>\$ (28,996)</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:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/13	\$ 361,388	\$ 435,682	121%	\$ (28,996)
06/30/12	395,678	406,076	103%	45,298
06/30/11	395,970	379,560	96%	55,696

D. Funded Status and Funding Progress

As of the July 1, 2012 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 \$ 3,427,975 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,427,975. The covered payroll (annual payroll of active employees covered by the plan) was \$ 9,892,804, and the ratio of the UAAL to the covered payroll was 34.7%.

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 year 2009, only three years of data are shown.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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, 2012 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 8% initially, reduced incrementally to an ultimate rate of 5% after 6 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 30 years.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2013, the District implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

The District also implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This resulted in reclassifying amounts previously classified as liabilities as deferred inflows of resources in accordance with GASB Statement No. 65.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made in the amount of \$ 358,750 on the Statement of Activities to record the equity interest in the Wright Technical Center joint venture.

NOTE 12 – COMMITMENTS

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – GASB STANDARD ISSUED NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
June 30, 2013**

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%
07/01/12	-	3,427,975	3,427,975	0%	9,892,804	34.65%

* This Schedule was implemented in 2009 and the actuarial valuation has been updated twice, and therefore, contains only three 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, 2013**

	Special Revenue Funds		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments	\$ 210,230	\$ 678,793	\$ 889,023
Current Property Taxes Receivable	-	86,097	86,097
Delinquent Property Taxes Receivable	-	8,868	8,868
Due from Department of Education	1,532	13,937	15,469
Due from Federal Government through Department of Education	10,844	-	10,844
Due from Other Minnesota School Districts	-	6,132	6,132
Inventory	21,985	8,028	30,013
Prepaid Items	2,751	2,240	4,991
Total Assets	<u>\$ 247,342</u>	<u>\$ 804,095</u>	<u>\$ 1,051,437</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 350	\$ 16,918	\$ 17,268
Salaries and Benefits Payable	16,684	139,434	156,118
Due to Other Governmental Units	-	4,903	4,903
Unearned Revenue	25,380	98,970	124,350
Total Liabilities	<u>42,414</u>	<u>260,225</u>	<u>302,639</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year's Expenditures	-	89,192	89,192
Unavailable Revenue - Delinquent Property Taxes	-	4,203	4,203
Total Deferred Inflows of Resources	<u>-</u>	<u>93,395</u>	<u>93,395</u>
Fund Balances			
Nonspendable	24,736	10,268	35,004
Restricted	180,192	440,207	620,399
Total Fund Balances	<u>204,928</u>	<u>450,475</u>	<u>655,403</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 247,342</u>	<u>\$ 804,095</u>	<u>\$ 1,051,437</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

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

For the Year Ended June 30, 2013

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Nonmajor Funds</u>
REVENUES			
Local Property Taxes	\$ -	\$ 195,016	\$ 195,016
Other Local and County Revenues	2,799	1,707,904	1,710,703
Revenue from State Sources	38,360	119,165	157,525
Revenue from Federal Sources	271,260	-	271,260
Sales and Other Conversion of Assets	628,693	-	628,693
Total Revenues	<u>941,112</u>	<u>2,022,085</u>	<u>2,963,197</u>
EXPENDITURES			
Current			
Food Service	898,044	-	898,044
Community Education and Services	-	2,004,732	2,004,732
Capital Outlay			
Community Education and Services	-	19,160	19,160
Total Expenditures	<u>898,044</u>	<u>2,023,892</u>	<u>2,921,936</u>
Excess of Revenues Over Expenditures	43,068	(1,807)	41,261
FUND BALANCES			
Beginning of Year	<u>161,860</u>	<u>452,282</u>	<u>614,142</u>
End of Year	<u><u>\$ 204,928</u></u>	<u><u>\$ 450,475</u></u>	<u><u>\$ 655,403</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2013**

	2013			2012
	Budgeted Amounts		Variance with	Actual
	Original	Final	Final Budget - Over (Under)	Amounts
REVENUES				
Local Property Taxes				
Property Tax Levy	\$ 2,074,180	\$ 2,106,300	\$ 2,117,494	\$ 2,295,239
County Apportionment	70,000	69,630	69,622	70,370
Miscellaneous Taxes	12,000	28,736	37,368	16,073
Property Tax Shift	989,800	319,128	319,128	(131,331)
Total Local Property Taxes	3,145,980	2,523,794	2,543,612	2,250,351
Other Local and County Revenues				
Tuition and Fees	253,715	304,083	352,244	238,975
Interest	2,000	7,000	8,403	4,112
Other Local Revenues	107,795	510,682	536,960	540,196
Total Other Local and County Revenues	363,510	821,765	897,607	783,283
Revenue from State Sources				
General Education Aid	14,992,236	15,100,632	15,126,688	14,723,560
Endowment Fund	63,723	67,965	69,681	67,034
Special Education Aid	1,340,000	1,452,000	1,453,690	1,377,645
Educational Agricultural and Homestead Credit	-	4,767	4,768	36,882
Other Aids	(740,338)	(82,662)	(81,590)	221,725
Total Revenue from State Sources	15,655,621	16,542,702	16,573,237	16,426,846
Revenue from Federal Sources				
Education Jobs and Stabilization	-	-	-	267,138
Title I	63,695	65,673	65,674	69,005
Special Education	224,393	200,399	199,760	162,563
Other	50,000	51,839	51,839	50,251
Total Revenue from Federal Source	338,088	317,911	317,273	548,957
Sales and Other Conversion of Assets				
Local Sales and Other Conversion of Assets	5,100	10,923	10,922	10,191
Total Revenues	19,508,299	20,217,095	20,342,651	20,019,628
EXPENDITURES				
Administration				
Salaries and Wages	691,348	704,845	699,082	772,535
Employee Benefits	233,686	243,163	243,078	305,629
Purchased Services	11,005	31,828	31,762	14,319
Supplies and Materials	11,125	45,675	45,612	66,240
Capital Expenditures	13,750	4,183	4,001	1,720
Other Expenditures	23,284	13,252	13,248	14,718
Total Administration	984,198	1,042,946	1,036,783	1,175,161
District Support Services				
Salaries and Wages	223,010	220,766	220,751	211,918
Employee Benefits	249,502	97,029	96,962	82,577
Purchased Services	154,150	160,177	154,329	165,804
Supplies and Materials	7,050	8,115	8,109	7,240
Capital Expenditures	34,000	6,825	6,824	430
Other Expenditures	24,789	38,746	24,244	31,056
Total District Support Services	692,501	531,658	511,219	499,025

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2013**

	2013				2012
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
EXPENDITURES					
Elementary and Secondary Regular Instruction					
Salaries and Wages	\$ 6,796,662	\$ 6,775,324	\$ 6,709,040	\$ (66,284)	\$ 6,812,419
Employee Benefits	2,385,182	2,433,720	2,422,689	(11,031)	2,499,708
Purchased Services	446,653	591,429	558,798	(32,631)	534,802
Supplies and Materials	257,798	639,980	638,512	(1,468)	465,950
Capital Expenditures	217,608	275,475	248,696	(26,779)	363,653
Other Expenditures	46,159	52,197	52,165	(32)	37,001
Total Elementary and Secondary Regular Instruction	10,150,062	10,768,125	10,629,900	(138,225)	10,713,533
Vocational Education Instruction					
Salaries and Wages	66,984	67,451	67,448	(3)	64,492
Employee Benefits	26,146	25,452	25,442	(10)	24,474
Purchased Services	190,200	169,824	169,753	(71)	215,840
Supplies and Materials	6,705	2,205	2,549	344	4,610
Total Vocational Education Instruction	290,035	264,932	265,192	260	309,416
Special Education Instruction					
Salaries and Wages	1,547,041	1,721,155	1,719,558	(1,597)	1,650,664
Employee Benefits	563,033	630,249	627,290	(2,959)	607,842
Purchased Services	171,950	172,543	171,758	(785)	167,850
Supplies and Materials	102,045	43,923	42,967	(956)	40,463
Capital Expenditures	-	10,450	10,450	-	9,874
Other Expenditures	9,200	11,611	11,610	(1)	10,072
Total Special Education Instruction	2,393,269	2,589,931	2,583,633	(6,298)	2,486,765
Instructional Support Services					
Salaries and Wages	472,154	482,463	482,259	(204)	380,544
Employee Benefits	173,853	171,372	171,153	(219)	126,775
Purchased Services	1,882	6,773	6,763	(10)	21,413
Supplies and Materials	381,475	43,348	43,187	(161)	48,107
Capital Expenditures	9,370	20,907	20,888	(19)	7,895
Other Expenditures	21,877	22,801	22,757	(44)	20,488
Total Instructional Support Services	1,060,611	747,664	747,007	(657)	605,222
Pupil Support Services					
Salaries and Wages	317,638	207,589	207,537	(52)	219,030
Employee Benefits	500,038	333,913	332,909	(1,004)	359,613
Purchased Services	1,312,900	1,354,028	1,353,931	(97)	1,359,336
Supplies and Materials	7,060	17,181	17,167	(14)	15,317
Capital Expenditures	1,100	1,800	1,800	-	1,143
Other Expenditures	1,673	2,088	2,088	-	1,423
Total Pupil Support Services	2,140,409	1,916,599	1,915,432	(1,167)	1,955,862

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2013**

	2013				2012
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
EXPENDITURES					
Sites and Buildings					
Salaries and Wages	\$ 664,285	\$ 639,426	\$ 639,332	\$ (94)	\$ 650,892
Employee Benefits	296,238	335,100	334,542	(558)	274,604
Purchased Services	569,790	619,683	576,897	(42,786)	545,533
Supplies and Materials	252,950	254,412	252,572	(1,840)	237,390
Capital Expenditures	127,000	117,321	80,081	(37,240)	274,059
Other Expenditures	65,042	26,739	15,079	(11,660)	-
Total Sites and Buildings	1,975,305	1,992,681	1,898,503	(94,178)	1,982,478
Fiscal and Other Fixed Cost Programs					
Purchased Services	88,385	92,346	92,345	(1)	74,028
Debt Service					
Principal	186,416	190,003	190,002	(1)	178,940
Interest and Fiscal Charges	96,666	97,523	97,524	1	104,143
Total Debt Service	283,082	287,526	287,526	-	283,083
Total Expenditures	20,057,857	20,234,408	19,967,540	(266,868)	20,084,573
Excess of Revenues Over (Under) Expenditures	(549,558)	(17,313)	375,111	392,424	(64,945)
OTHER FINANCING SOURCES					
Proceeds from Sale of Capital Assets	-	495	495	-	-
Proceeds from Capital Leases	-	59,733	59,733	-	-
Total Other Financing Sources (Uses)	-	60,228	60,228	-	-
Net Change in Fund Balances	\$ (549,558)	\$ 42,915	435,339	\$ 392,424	(64,945)
FUND BALANCES					
Beginning of Year			5,975,431		6,040,376
End of Year			\$ 6,410,770		\$ 5,975,431

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL FOOD SERVICE FUND
For the Year Ended June 30, 2013**

	2013				2012
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
REVENUES					
Other Local and County Revenues					
Interest	\$ 75	\$ 250	\$ 378	\$ 128	\$ 211
Other Local Revenues	500	2,077	2,421	344	459
Total Other Local and County Revenues	575	2,327	2,799	472	670
Revenue from State Sources					
Lunch Program Aid	38,620	37,380	38,360	980	38,926
Revenue from Federal Sources					
Lunch Aid Program	184,750	197,698	200,087	2,389	187,433
Food Distribution Program	40,000	70,081	71,173	1,092	55,407
Total Revenue from Federal Sources	224,750	267,779	271,260	3,481	242,840
Sales and Other Conversion of Assets					
Sale of Food	636,247	628,722	628,693	(29)	612,487
Total Revenues	900,192	936,208	941,112	4,904	894,923
EXPENDITURES					
Food Service					
Salaries and Wages	324,766	323,809	315,147	(8,662)	308,677
Employee Benefits	130,639	134,658	128,830	(5,828)	122,575
Purchased Services	32,300	32,851	32,849	(2)	25,434
Supplies and Materials	417,512	422,332	415,812	(6,520)	401,116
Capital Expenditures	-	-	-	-	1,203
Other Expenditures	5,075	5,405	5,406	1	5,070
Total Food Service	910,292	919,055	898,044	(21,011)	864,075
Excess of Revenues Over (Under) Expenditures	\$ (10,100)	\$ 17,153	43,068	\$ 25,915	\$ 30,848
FUND BALANCES					
Beginning of Year			161,860		131,012
Ending of Year			\$ 204,928		\$ 161,860

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL COMMUNITY SERVICE FUND
For the Year Ended June 30, 2013**

	2013				2012
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
REVENUES					
Local Property Taxes					
Property Tax Levy	\$ 208,848	\$ 208,848	\$ 212,227	\$ 3,379	\$ 236,527
Miscellaneous Taxes	-	44	44	-	-
Property Tax Shift	120,000	(17,255)	(17,255)	-	(20,034)
Total Local Property Taxes	328,848	191,637	195,016	3,379	216,493
Other Local and County Revenues					
Tuition and Fees	1,445,810	1,544,745	1,618,417	73,672	1,441,555
Interest	300	300	1,198	898	692
Other Local Revenues	58,000	86,694	88,289	1,595	69,500
Total Other Local and County Revenues	1,504,110	1,631,739	1,707,904	76,165	1,511,747
Revenue from State Sources					
Educational Agricultural and Homestead Credit	-	1,136	1,317	181	9,911
Other Aids	(15,374)	116,963	117,848	885	125,294
Total Revenue from State Sources	(15,374)	118,099	119,165	1,066	135,205
Total Revenues	1,817,584	1,941,475	2,022,085	80,610	1,863,445
EXPENDITURES					
Community Education and Services					
Salaries and Wages	1,148,951	1,190,353	1,252,007	61,654	1,143,812
Employee Benefits	301,536	298,509	304,076	5,567	278,138
Purchased Services	260,065	279,746	285,791	6,045	265,157
Supplies and Materials	114,777	163,251	161,091	(2,160)	130,130
Capital Expenditures	14,000	20,253	19,160	(1,093)	12,511
Other Expenditures	4,448	4,508	1,767	(2,741)	4,330
Total Expenditures	1,843,777	1,956,620	2,023,892	67,272	1,834,078
Excess of Revenues Over (Under) Expenditures	\$ (26,193)	\$ (15,145)	(1,807)	\$ 13,338	\$ 29,367
FUND BALANCES					
Beginning of Year			452,282		422,915
End of Year			\$ 450,475		\$ 452,282

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF CHANGES IN AGENCY FUND

ASSETS AND LIABILITIES

For the Year Ended June 30, 2013

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
ASSETS				
Cash and Investments	<u>\$ 1,275</u>	<u>\$ 17,903</u>	<u>\$ 17,386</u>	<u>\$ 1,792</u>
LIABILITIES				
Accounts Payable	<u>\$ 1,275</u>	<u>\$ 17,903</u>	<u>\$ 17,386</u>	<u>\$ 1,792</u>

INDEPENDENT SCHOOL DISTRICT NO. 879
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2013

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 20,342,651	\$ 20,342,648	\$ 3	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	19,967,540	19,967,539	1	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	105,199	105,198	1	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	555,366	555,366	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	55,198	55,198	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	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	1,065,003	1,065,003	-	Total Revenue	\$ 2,354,094	\$ 2,354,092	\$ 2
426 \$ 25 Taconite	-	-	-	Total Expenditures	2,337,503	2,337,503	-
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 and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	749,130	749,130	-
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Transition for Pre-kindergarten	-	-	-	08 TRUST FUND			
451 QZAB and QSCB Payments	-	-	-	Total Revenue	\$ 55,984	\$ 55,984	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	50,059	50,060	(1)
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance (Net Position)	31,104	31,104	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	170,387	170,387	-	Total Revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	578,142	578,142	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance (Net Position)	3,881,475	3,881,474	1	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ -	\$ -	\$ -
02 FOOD SERVICES FUND				Total Expenditures	-	-	-
Total Revenue	\$ 941,112	\$ 941,113	\$ (1)	<i>Unassigned:</i>			
Total Expenditures	898,044	898,045	(1)	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	24,736	24,736	-	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	180,192	180,191	1	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	-	-	-
Total Revenue	\$ 2,022,085	\$ 2,022,085	\$ -	<i>Nonspendable:</i>			
Total Expenditures	2,023,892	2,023,892	-	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	10,268	10,268	-	464 Restricted Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	432,953	432,953	-				
432 ECCE	1,882	1,882	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	966	966	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	4,406	4,404	2				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

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	\$ 71,173
School Breakfast	10.553	9,965
Milk	10.556	3,162
Type A Lunch	10.555	<u>186,960</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		271,260
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	65,672
Title II, Part A - Improving Teacher Quality	84.367	51,486
Through Wright Technical Center		
Carl Perkins	84.048A	353
Through Meeker and Wright Special Education Cooperative No. 938:		
Special Education Cluster:		
Special Education	84.027	185,504
Discretionary Continuous Improvement Monitoring Process	84.027	1,000
Preschool Grants	84.173	<u>13,255</u>
Total Special Education Cluster		<u>199,759</u>
Total U.S. Department of Education		<u>317,270</u>
 Total Federal Expenditures		 <u><u>\$ 588,530</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

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***

INDEPENDENT AUDITOR'S REPORT

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ending June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 6, 2013.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Finding and Questioned Costs in Accordance with OMB *Circular A-133*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Finding and Questioned Costs in Accordance with OMB *Circular A-133* to be a material weakness, Audit Finding 13-01.



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. We consider the deficiency described in the accompanying Schedule of Finding and Questioned Costs in Accordance with OMB *Circular A-133* to be a significant deficiency, Audit Finding 11-01.

Compliance and Other Matters

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

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 6, 2013



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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

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 each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 879.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 879 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 6, 2013

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Findings 13-01
• 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:	Unmodified
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.:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	Yes

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2013

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 year ended June 30, 2013, 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, 2013

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.

Audit Finding 13-01 – Prior Period Adjustment

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 all material entries be posted prior to the audit.

Condition:

During the course of our engagement, a prior period adjustment was required that was not identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, a prior period adjustment was required to record the District's equity interest in the Wright Technical Center joint venture.

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 13-01 – Prior Period Adjustment (Continued)

Questioned Costs:

None

Context:

This finding impacts the District's ability to internally prepare their financial statements free from material misstatements.

Effect:

The financial statements could have material misstatements.

Cause:

District personnel did not make all required audit adjustments.

Recommendation:

Review the District's financial statements to assure all entries are prepared and posted prior to the audit.

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 make all necessary entries prior to the audit and review financial statements for any errors. District staff will confer with auditors prior to fieldwork regarding these entries on any unusual items.
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 June 30, 2014.
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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements, and have issued our report thereon dated November 6, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65, contains 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 audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Finding and Corrective Action Plan on Legal Compliance and Internal Control. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Kern DeWenter, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 6, 2013

INDEPENDENT SCHOOL DISTRICT NO. 879

SCHEDULE OF FINDING AND CORRECTIVE ACTION PLAN ON LEGAL COMPLIANCE June 30, 2013

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Abstain from Voting on Contracts with a Conflict of Interest

Minnesota Statutes 471.88, subd. 21 states that notwithstanding subdivision 1, a local school board may contract with a class of school district employees such as teachers or custodians where the spouse of a school board member is a member of the class of employees contracting with the school board and the employee spouse receives no special monetary or other benefit that is substantially different from the benefits that other members of the class receive under the employment contract. A school board invoking this exception must have a majority of disinterested school board members vote to approve the contract, direct the school board member spouse to abstain from voting to approve the contract, and publicly set out the essential facts of the contract at the meeting where the contract is approved.

During our audit, it was noted that one School Board Member whose spouse was employed at the District was subject to *Minnesota Statutes* 471.88, subd. 21 but did not abstain from voting during approval of the fiscal year 2012-2013 paraprofessional contract.

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
Any School Board Member with a spouse employed at the District, subject to *Minnesota Statutes* 471.88, subd. 21, will be requested abstain from voting to be in compliance with state statutes.
3. Official Responsible for Ensuring CAP
Matthew Schoen, Superintendent, 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 June 30, 2014.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.