

INDEPENDENT SCHOOL DISTRICT NO. 831  
FOREST LAKE, MINNESOTA

Financial Statements  
and Supplemental Information

Year Ended  
June 30, 2013

**Table of Contents**

	Page
<b>INTRODUCTORY SECTION</b>	
<b>SCHOOL BOARD AND ADMINISTRATION</b>	1
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	2–4
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	5–16
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements	
Governmental Funds	
Balance Sheet	19–20
Reconciliation of the Balance Sheet to the Statement of Net Position	21
Statement of Revenue, Expenditures, and Changes in Fund Balances	22–23
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	25
Fiduciary Funds	
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	26
Notes to Basic Financial Statements	27–49
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Other Post-Employment Benefits Plan	
Schedule of Funding Progress	50
Schedule of Employer Contributions	50
<b>SUPPLEMENTAL INFORMATION</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	52
General Fund	
Comparative Balance Sheet	53
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	54–56
Food Service Special Revenue Fund	
Comparative Balance Sheet	57
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	58

**Table of Contents (continued)**

	Page
<b>SUPPLEMENTAL INFORMATION (CONTINUED)</b>	
Community Service Special Revenue Fund	
Comparative Balance Sheet	59
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	60
Capital Projects – Building Construction Fund	
Balance Sheet	61
Schedule of Revenue, Expenditures, and Changes in Fund Balances	62
Debt Service Fund	
Comparative Balance Sheet by Account	63
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account – Budget and Actual	64–65
Employee Benefit Trust Funds	
Combining Statement of Fiduciary Net Position	66
Combining Statement of Changes in Fiduciary Net Position	66
<b>OTHER DISTRICT INFORMATION (UNAUDITED)</b>	
Government-Wide Revenue by Type	67
Government-Wide Expenses by Function	68–69
General Fund Revenue by Source	70
General Fund Expenditures by Function	71–72
School Tax Levies and Tax Rates by Fund	73
Tax Capacities and Market Values	74–75
Property Tax Levies and Receivables	76–77
Student Enrollment	78
<b>SINGLE AUDIT AND OTHER REQUIRED REPORTS</b>	
Schedule of Expenditures of Federal Awards	79
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	80–81
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	82–83
Independent Auditor’s Report on Minnesota Legal Compliance	84
Schedule of Findings and Questioned Costs	85–86
Uniform Financial Accounting and Reporting Standards Compliance Table	87–88

INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration  
Year Ended June 30, 2013

**SCHOOL BOARD**

Board Position  
During 2012–2013

---

Robert Rapheal	Chairperson (President)
Erin Turner	Vice Chairperson (Vice President)
Karen Morehead	Clerk
Dan Kieger	Treasurer
Kathy Bystrom	Director
Julie Corcoran	Director
Gail Theisen	Director

**ADMINISTRATION**

Linda Madsen	Superintendent
Lawrence Martini	Director of Business Services

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831, Forest Lake, Minnesota (the District) 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.

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

The introductory and other district information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

(continued)



### **Prior Year Comparative Information**

We have previously audited the District's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 9, 2012. In our opinion, the partial 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota  
November 18, 2013

## INDEPENDENT SCHOOL DISTRICT NO. 831

### Management's Discussion and Analysis June 30, 2013

This section of Independent School District No. 831, Forest Lake, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the other components of the District's annual financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The District's assets exceeded its liabilities and deferred inflows of resources at June 30, 2013 by \$27.8 million (net position). The District's total net position increased by \$1.3 million during the fiscal year ended June 30, 2013.
- Governmental activities revenues totaled \$77.7 million and were \$1.3 million more than expenses of \$76.4 million.
- The General Fund's total fund balance (under the governmental fund presentation) decreased \$75,000 from the prior year, compared to a \$688,000 decrease planned in the budget, to a year-end balance of \$8.6 million.

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

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

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

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

#### **Government-Wide Financial Statements**

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, except for the fiduciary funds. 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 financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of 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 titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's *funds*—focusing on its most significant or major funds, rather than the District as a whole. Funds (Food Service Special Revenue, Community Service Special Revenue, and Capital Projects – Building Construction) that do not meet the threshold to be classified as major funds are called nonmajor funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

**Governmental Funds** – 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 fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

**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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current and other assets	\$ 49,374,431	\$ 46,593,331
Capital assets, net of depreciation	<u>47,628,489</u>	<u>47,754,044</u>
<b>Total assets</b>	<b><u>\$ 97,002,920</u></b>	<b><u>\$ 94,347,375</u></b>
<b>Liabilities</b>		
Current and other liabilities	\$ 25,881,963	\$ 21,826,548
Long-term liabilities, including due within one year	<u>32,378,557</u>	<u>36,168,594</u>
<b>Total liabilities</b>	<b><u>\$ 58,260,520</u></b>	<b><u>\$ 57,995,142</u></b>
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	<u>\$ 10,945,713</u>	<u>\$ 9,889,802</u>
<b>Net position</b>		
Net investment in capital assets	\$ 25,411,681	\$ 22,301,539
Restricted	2,350,103	1,979,589
Unrestricted	<u>34,903</u>	<u>2,181,303</u>
<b>Total net position</b>	<b><u>\$ 27,796,687</u></b>	<b><u>\$ 26,462,431</u></b>

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term severance and other post-employment benefits (OPEB), which impacts the unrestricted portion of net position.

Total net position increased by \$1,334,256, which reflects the current year operating results. As presented in the table above, net investment in capital assets and restricted net position experienced increases over the prior year, while unrestricted net position decreased.

The District's increase in net investment in capital assets is due mostly to the District repaying debt at a faster rate than the assets being depreciated. An increase in net position restricted for capital asset acquisition, debt service, and community service contributed to the overall increase in the restricted portion of net position. The decrease in unrestricted net position is largely due to the District incurring alternative facility project costs prior to receiving or recognizing the levy that will finance the project.

Table 2 presents a summarized version of the District's Statement of Activities:

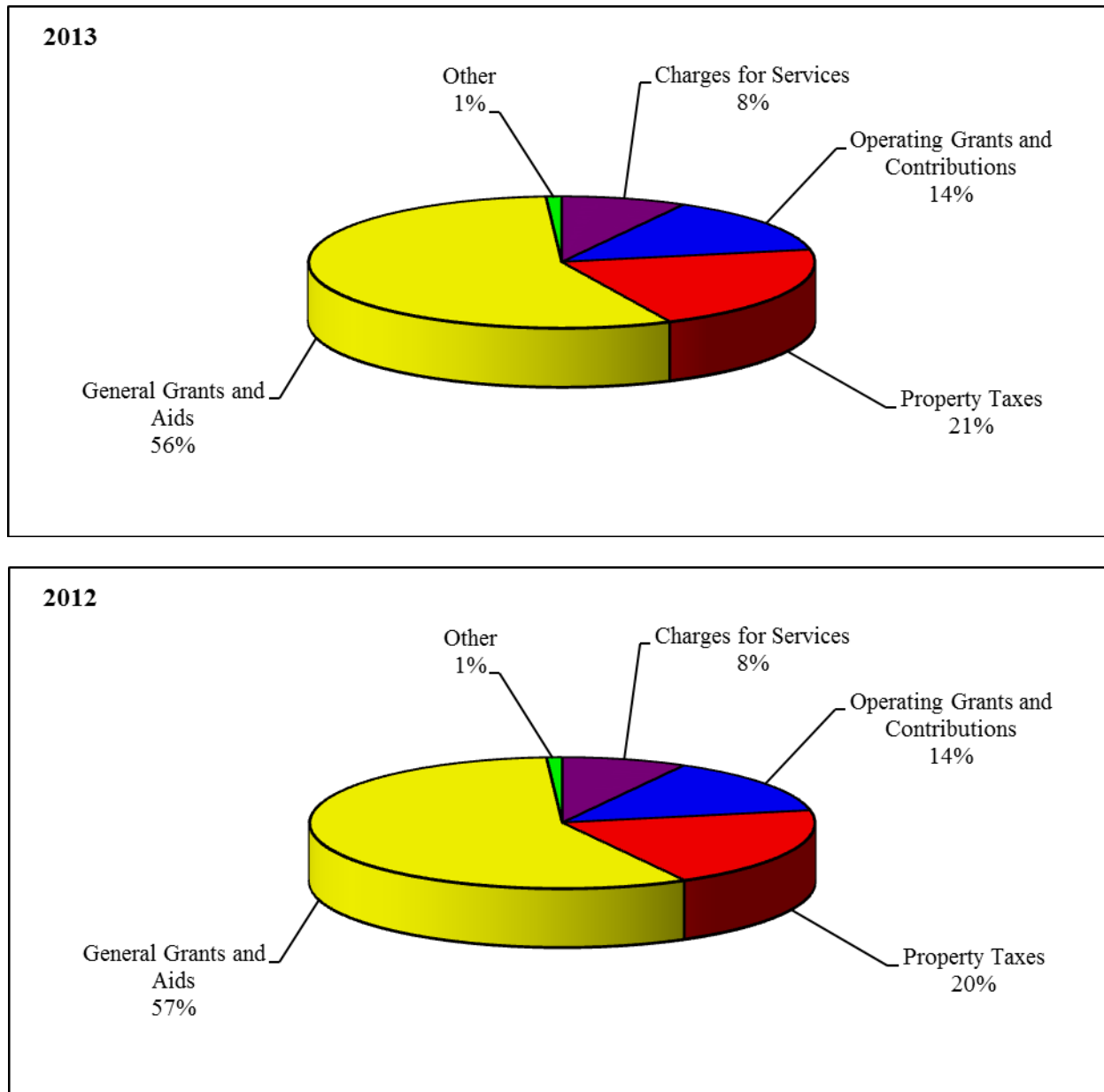
	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 6,115,186	\$ 6,148,601
Operating grants and contributions	11,490,994	11,485,954
General revenues		
Property taxes	16,176,424	15,230,036
General grants and aids	43,429,388	44,173,101
Other	553,293	591,559
<b>Total revenues</b>	<u>77,765,285</u>	<u>77,629,251</u>
<b>Expenses</b>		
Administration	3,201,925	3,100,536
District support services	2,254,471	2,197,394
Elementary and secondary regular instruction	27,594,183	25,576,188
Vocational education instruction	781,880	810,798
Special education instruction	10,918,573	10,620,873
Instructional support services	2,369,743	2,077,860
Pupil support services	9,928,802	9,731,943
Sites and buildings	7,684,483	6,538,037
Fiscal and other fixed cost programs	317,174	296,349
Food service	3,891,749	4,037,265
Community service	4,113,757	4,085,559
Depreciation not allocated to other functions	2,098,391	2,126,662
Interest and fiscal charges	1,275,898	1,428,442
<b>Total expenses</b>	<u>76,431,029</u>	<u>72,627,906</u>
<b>Change in net position</b>	1,334,256	5,001,345
<b>Net position – beginning</b>	<u>26,462,431</u>	<u>21,461,086</u>
<b>Net position – ending</b>	<u>\$ 27,796,687</u>	<u>\$ 26,462,431</u>

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The cost of all governmental activities this year was \$76,431,029. Some of the cost was paid directly by users of the programs totaling \$6,115,186. The state and federal government subsidized certain programs directly with grants and contributions totaling \$11,490,994. However, the bulk of the costs were paid for by the taxpayers of the entire state totaling \$43,429,388 and local district taxpayers totaling \$16,176,424. Other sources totaling \$553,293 were also recognized, rounding out total revenues of the District.

Figure A shows further analysis of these revenue sources:

**Figure A – Sources of Revenues for Fiscal Years 2013 and 2012**



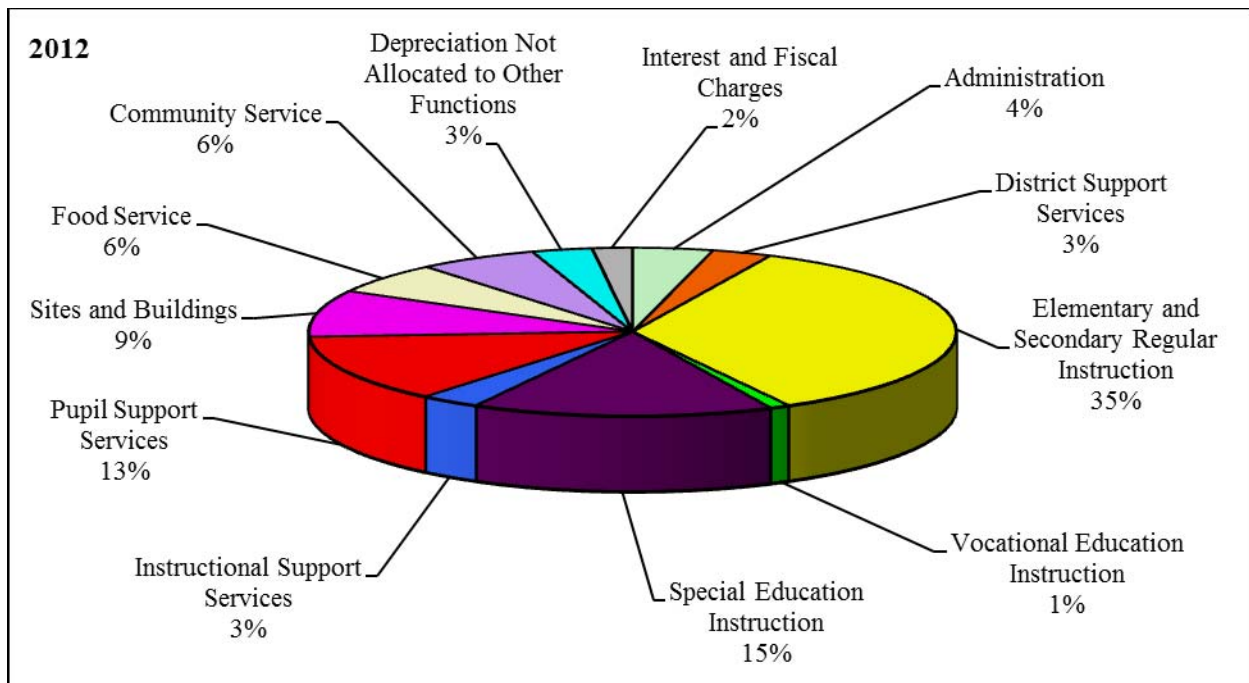
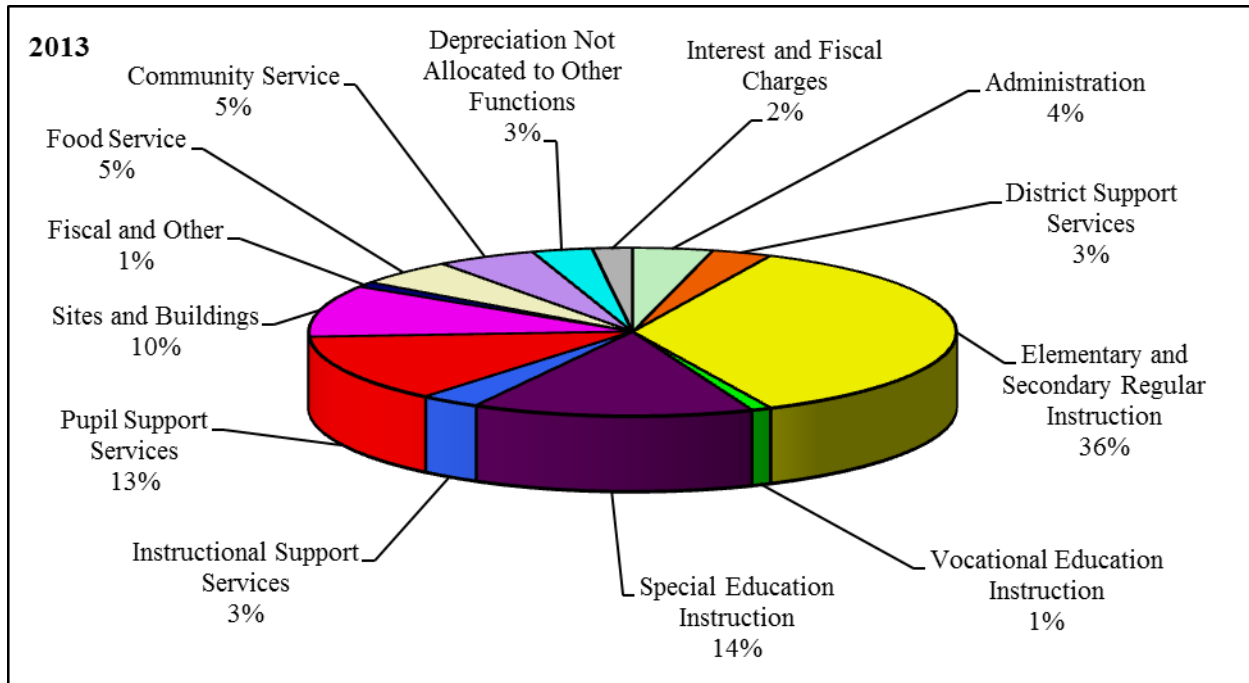
The largest share of the District’s revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state’s financial position in recent years.

Property taxes are generally the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The proportionate share of district revenue from these two sources may change significantly between fiscal years, due to the “tax shift.” The tax shift is an accounting tool used on occasion to balance the state budget, whereby districts recognize cash collections for the subsequent year’s property tax levy as current year revenue, and the state adjusts aid payments to districts by an equal amount.

Figure B shows further analysis of the expense functions:

**Figure B – Expenses for Fiscal Years 2013 and 2012**



The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Major funds			
General	\$ 8,642,009	\$ 8,717,242	\$ (75,233)
Debt Service	851,170	811,890	39,280
Nonmajor funds			
Food Service Special Revenue	583,928	661,538	(77,610)
Community Service Special Revenue	848,630	776,518	72,112
Capital Projects – Building Construction	<u>(1,720,222)</u>	<u>–</u>	<u>(1,720,222)</u>
 Total governmental funds	 <u><u>\$ 9,205,515</u></u>	 <u><u>\$ 10,967,188</u></u>	 <u><u>\$ (1,761,673)</u></u>

As previously discussed, the focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2013, the District's governmental funds reported combined fund balances of \$9,205,515, a decrease of \$1,761,673 in comparison with the prior year. Approximately 36.2 percent of this amount (\$3,331,853) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$404,209), 2) restricted for particular purposes (\$2,658,267), or 3) assigned for particular purposes (\$2,811,186).



## ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue	<u>\$ 63,301,563</u>	<u>\$ 65,135,263</u>	<u>\$ 1,833,700</u>	<u>2.9%</u>
Expenditures	<u>\$ 65,476,725</u>	<u>\$ 65,822,825</u>	<u>\$ 346,100</u>	<u>0.5%</u>

The District was required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. It is the District's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes.

Table 5 summarizes the operating results of the General Fund:

	<u>2013 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 65,160,126	\$ 24,863	-	\$ (314,367)	(0.5%)
Expenditures	<u>65,235,359</u>	\$ (587,466)	(0.9%)	\$ 2,867,659	4.6%
Net change in fund balances	<u>\$ (75,233)</u>				

Actual revenue for fiscal year 2013 was less than 0.1 percent more than projected, while actual expenditures were 0.9 percent under budget. The expenditure variance in 2013 was spread across several programs, with the largest variance occurring in elementary and secondary regular instruction, which was \$643,592 less than planned in the budget.

## **COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS**

### **Analysis of the Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for the District's outstanding bonded indebtedness, whether for building construction, OPEB obligations, or for refunding bonds. The June 30, 2013 fund balance is \$851,170, an increase from the prior fiscal year of \$39,280. The fund balance increase is based on the payment schedules of bond principal and interest on the general obligation bonds issued in relation to scheduled debt levies.

### **Analysis of the Food Service Special Revenue Fund**

The Food Service Special Revenue Fund is used to record the activity of the District's child nutrition program. The June 30, 2013 fund balance is \$583,928, a decrease from the prior fiscal year of \$77,610. This compares to a projected decrease of \$223,815.

### **Analysis of the Community Service Special Revenue Fund**

The Community Service Special Revenue Fund increased total fund balance by \$72,112 from \$776,518 at the beginning of the year to \$848,630 at the end of the 2013 fiscal year. This compares to a projected decrease of \$56,211.

### **Analysis of the Capital Projects – Building Construction Fund**

The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by the District's alternative facilities levy as approved by the Minnesota Department of Education. At June 30, 2013, the District had a deficit fund balance of \$1,720,222, which reflects a project that was started in fiscal 2013 for which the District has future levy authority.

## CAPITAL ASSETS AND LONG-TERM LIABILITIES

### Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2013 and 2012:

	<b>Table 6 Capital Assets</b>		
	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Land	\$ 1,885,726	\$ 1,885,726	\$ –
Construction in progress	1,720,030	–	1,720,030
Buildings	81,356,255	81,356,255	–
Building and land improvements	11,257,139	10,893,137	364,002
Furniture and equipment	20,597,624	20,814,357	(216,733)
Less accumulated depreciation	<u>(69,188,285)</u>	<u>(67,195,431)</u>	<u>(1,992,854)</u>
Total	<u>\$ 47,628,489</u>	<u>\$ 47,754,044</u>	<u>\$ (125,555)</u>
Depreciation expense	<u>\$ 2,457,216</u>	<u>\$ 2,533,720</u>	<u>\$ (76,504)</u>

By the end of fiscal year 2013, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity of projects at district sites during fiscal year 2013, including the activity of the Capital Projects – Building Construction Fund discussed earlier in this report. Additional details about capital assets can be found in the notes to basic financial statements.

## Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
General obligation bonds payable	\$ 26,740,000	\$ 29,930,000	\$ (3,190,000)
Premium on bonds	1,393,541	1,640,542	(247,001)
Severance benefits payable	3,480,325	3,928,342	(448,017)
Compensated absences payable	<u>764,691</u>	<u>669,710</u>	<u>94,981</u>
Total	<u>\$ 32,378,557</u>	<u>\$ 36,168,594</u>	<u>\$ (3,790,037)</u>

Scheduled debt payments on bonds in the current year reduced the District's outstanding debt as of June 30, 2013.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. (See Table 8)

District's market value	\$ 3,939,600,600
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 590,940,090</u>

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

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

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts increased \$50 per pupil in fiscal year 2013 to \$5,224. The Legislature has added \$78, or 1.5 percent, per pupil to the formula for fiscal year 2014. Beginning with the 2015 fiscal year several funding and pupil weighting changes are effective, which include an equivalent increase of \$80, or 1.5 percent, for basic general education formula funding. A weakened economy and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

## **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. If you have questions about this report or need additional financial information, contact the Business Services Department at (651) 982-8125. The address is: Independent School District No. 831, 6100 North 210th Street, Forest Lake, Minnesota 55025.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Net Position  
as of June 30, 2013  
(With Partial Comparative Information as of June 30, 2012)

	Governmental Activities	
	2013	2012
<b>Assets</b>		
Cash and temporary investments	\$ 24,268,988	\$ 10,868,559
Receivables		
Current taxes	9,579,281	8,755,587
Delinquent taxes	501,974	659,922
Accounts and interest	339,177	272,907
Due from fiduciary fund	508,872	542,201
Due from other governmental units	10,267,988	21,078,969
Inventory	104,698	69,527
Prepaid items	299,511	250,082
Negative net other post-employment benefit obligations	3,503,942	4,095,577
<b>Capital assets</b>		
Not depreciated	3,605,756	1,885,726
Depreciated, net of accumulated depreciation	44,022,733	45,868,318
Total capital assets, net of accumulated depreciation	<u>47,628,489</u>	<u>47,754,044</u>
<b>Total assets</b>	<u>\$ 97,002,920</u>	<u>\$ 94,347,375</u>
<b>Liabilities</b>		
Aid anticipation certificates	\$ 17,187,828	\$ 14,735,662
Salaries payable	837,524	825,071
Accounts and contracts payable	6,860,141	5,246,571
Accrued interest payable	839,518	866,472
Due to other governmental units	32,154	17
Unearned revenue	124,798	152,755
<b>Long-term liabilities</b>		
Due within one year	4,996,588	4,861,831
Due in more than one year	27,381,969	31,306,763
Total long-term liabilities	<u>32,378,557</u>	<u>36,168,594</u>
<b>Total liabilities</b>	58,260,520	57,995,142
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	10,945,713	9,889,802
<b>Net position</b>		
Net investment in capital assets	25,411,681	22,301,539
Restricted for		
Capital asset acquisition	489,643	215,331
Debt service	406,625	303,292
Food service	583,928	661,538
Community service	869,907	799,428
Unrestricted	34,903	2,181,303
Total net position	<u>27,796,687</u>	<u>26,462,431</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 97,002,920</u>	<u>\$ 94,347,375</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Activities  
 Year Ended June 30, 2013  
 (With Partial Comparative Information for the Year Ended June 30, 2012)

Functions/Programs	Expenses	2013		2012	
		Program Revenues		Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
			Governmental Activities	Governmental Activities	
Governmental activities					
Administration	\$ 3,201,925	\$ -	\$ -	\$ (3,201,925)	\$ (3,100,536)
District support services	2,254,471	-	-	(2,254,471)	(2,197,394)
Elementary and secondary regular instruction	27,594,183	587,869	937,342	(26,068,972)	(23,216,355)
Vocational education instruction	781,880	33,631	17,935	(730,314)	(757,726)
Special education instruction	10,918,573	415,505	8,418,740	(2,084,328)	(2,699,627)
Instructional support services	2,369,743	-	-	(2,369,743)	(2,059,907)
Pupil support services	9,928,802	-	160,035	(9,768,767)	(9,555,207)
Sites and buildings	7,684,483	31,543	-	(7,652,940)	(6,505,155)
Fiscal and other fixed cost programs	317,174	-	-	(317,174)	(296,349)
Food service	3,891,749	2,229,856	1,486,737	(175,156)	(333,603)
Community service	4,113,757	2,816,782	470,205	(826,770)	(716,388)
Depreciation not allocated to other functions	2,098,391	-	-	(2,098,391)	(2,126,662)
Interest and fiscal charges	1,275,898	-	-	(1,275,898)	(1,428,442)
<b>Total governmental activities</b>	<b>\$ 76,431,029</b>	<b>\$ 6,115,186</b>	<b>\$ 11,490,994</b>	<b>(58,824,849)</b>	<b>(54,993,351)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes				10,560,566	10,324,866
Property taxes, levied for community service				889,040	841,510
Property taxes, levied for debt service				4,726,818	4,063,660
General grants and aids				43,429,388	44,173,101
Other general revenues				520,529	516,604
Investment earnings				32,764	74,955
Total general revenue				<u>60,159,105</u>	<u>59,994,696</u>
Change in net positions				1,334,256	5,001,345
Net position – beginning				<u>26,462,431</u>	<u>21,461,086</u>
Net position – ending				<u>\$ 27,796,687</u>	<u>\$ 26,462,431</u>

See notes to basic financial statements



INDEPENDENT SCHOOL DISTRICT NO. 831

Balance Sheet  
 Governmental Funds  
 as of June 30, 2013  
 (With Partial Comparative Information as of June 30, 2012)

	General Fund	Debt Service Fund	Nonmajor Funds
<b>Assets</b>			
Cash and temporary investments	\$ 19,744,434	\$ 2,904,533	\$ 1,620,021
Receivables			
Current taxes	6,415,806	2,668,177	495,298
Delinquent taxes	329,485	144,986	27,503
Accounts and interest	254,629	-	84,548
Due from other governmental units	10,033,577	1,330	233,081
Due from other funds	1,053,318	-	22,977
Inventory	-	-	104,698
Prepaid items	289,105	-	10,406
	<u>38,120,354</u>	<u>5,719,026</u>	<u>2,598,532</u>
	\$	\$	\$
<b>Liabilities</b>			
Aid anticipation certificates	\$ 17,187,828	\$ -	\$ -
Salaries payable	685,679	-	151,845
Accounts and contracts payable	5,299,115	-	1,561,026
Accrued interest payable	282,644	-	-
Due to other governmental units	5,761	-	26,393
Due to other funds	-	-	567,423
Unearned revenue	20,000	-	104,798
	<u>23,481,027</u>	<u>-</u>	<u>2,411,485</u>
<b>Deferred inflows of resources</b>			
Property taxes levied for subsequent year	5,736,752	4,755,527	453,434
Unavailable revenue	260,566	112,329	21,277
	<u>5,997,318</u>	<u>4,867,856</u>	<u>474,711</u>
<b>Fund balances (deficits)</b>			
Nonspendable	289,105	-	115,104
Restricted	489,643	851,170	1,317,454
Assigned	2,811,186	-	-
Unassigned	5,052,075	-	(1,720,222)
	<u>8,642,009</u>	<u>851,170</u>	<u>(287,664)</u>
	<u>\$ 38,120,354</u>	<u>\$ 5,719,026</u>	<u>\$ 2,598,532</u>
	\$	\$	\$
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 38,120,354</u>	<u>\$ 5,719,026</u>	<u>\$ 2,598,532</u>

See notes to basic financial statements

Total Governmental Funds	
2013	2012
\$ 24,268,988	\$ 10,868,559
9,579,281	8,755,587
501,974	659,922
339,177	272,907
10,267,988	21,078,969
1,076,295	542,201
104,698	69,527
299,511	250,082
<u>\$ 46,437,912</u>	<u>\$ 42,497,754</u>
\$ 17,187,828	\$ 14,735,662
837,524	825,071
6,860,141	5,246,571
282,644	237,539
32,154	17
567,423	—
124,798	152,755
<u>25,892,512</u>	<u>21,197,615</u>
10,945,713	9,889,802
394,172	443,149
<u>11,339,885</u>	<u>10,332,951</u>
404,209	319,609
2,658,267	2,383,339
2,811,186	3,177,283
3,331,853	5,086,957
<u>9,205,515</u>	<u>10,967,188</u>
<u>\$ 46,437,912</u>	<u>\$ 42,497,754</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2013  
(With Partial Comparative Information as of June 30, 2012)

	<u>2013</u>	<u>2012</u>
Total fund balances – governmental funds	\$ 9,205,515	\$ 10,967,188
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	116,816,774	114,949,475
Accumulated depreciation	(69,188,285)	(67,195,431)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(26,740,000)	(29,930,000)
Premium on bonds	(1,393,541)	(1,640,542)
Severance benefits payable	(3,480,325)	(3,928,342)
Compensated absences payable	(764,691)	(669,710)
Net other post-employment benefit obligations reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.		
	3,503,942	4,095,577
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.		
	(556,874)	(628,933)
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.		
	<u>394,172</u>	<u>443,149</u>
Total net position – governmental activities	<u>\$ 27,796,687</u>	<u>\$ 26,462,431</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2013  
 (With Partial Comparative Information for the Year Ended June 30, 2012)

	General Fund	Debt Service Fund	Nonmajor Funds
<b>Revenue</b>			
Local sources			
Property taxes	\$ 10,599,904	\$ 4,734,824	\$ 890,673
Investment earnings	27,817	2,698	2,249
Other	1,589,077	-	5,046,638
State sources	50,759,534	9,791	643,098
Federal sources	2,183,794	-	1,324,165
Total revenue	<u>65,160,126</u>	<u>4,747,313</u>	<u>7,906,823</u>
<b>Expenditures</b>			
Current			
Administration	3,159,778	-	-
District support services	2,232,860	-	-
Elementary and secondary regular instruction	27,755,921	-	-
Vocational education instruction	779,510	-	-
Special education instruction	10,809,283	-	-
Instructional support services	2,345,242	-	-
Pupil support services	9,699,810	-	-
Sites and buildings	8,058,856	-	-
Fiscal and other fixed cost programs	317,174	-	-
Food service	-	-	3,764,887
Community service	-	-	4,105,224
Capital outlay	-	-	1,762,432
Debt service			
Principal	-	3,190,000	-
Interest and fiscal charges	76,925	1,518,033	-
Total expenditures	<u>65,235,359</u>	<u>4,708,033</u>	<u>9,632,543</u>
Net change in fund balances	(75,233)	39,280	(1,725,720)
<b>Fund balances (deficits)</b>			
Beginning of year	<u>8,717,242</u>	<u>811,890</u>	<u>1,438,056</u>
End of year	<u>\$ 8,642,009</u>	<u>\$ 851,170</u>	<u>\$ (287,664)</u>

See notes to basic financial statements

Total Governmental Funds

	2013		2012
\$	16,225,401	\$	15,286,767
	32,764		74,955
	6,635,715		6,665,205
	51,412,423		51,492,163
	3,507,959		4,166,892
	77,814,262		77,685,982
	3,159,778		3,112,219
	2,232,860		2,178,896
	27,755,921		26,302,525
	779,510		808,428
	10,809,283		10,542,937
	2,345,242		2,058,433
	9,699,810		9,481,775
	8,058,856		7,526,899
	317,174		296,349
	3,764,887		3,816,183
	4,105,224		4,066,805
	1,762,432		127,711
	3,190,000		2,990,000
	1,594,958		1,736,641
	79,575,935		75,045,801
	(1,761,673)		2,640,181
	10,967,188		8,327,007
\$	9,205,515	\$	10,967,188

INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2013

(With Partial Comparative Information for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Total net change in fund balances – governmental funds	\$ (1,761,673)	\$ 2,640,181
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	2,331,661	1,104,269
Depreciation expense	(2,457,216)	(2,533,720)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds	3,190,000	2,990,000
Net other post-employment benefit obligations reported in the Statement of Activities do not require the use of current financial resources and are not reported until actually due.		
	(591,635)	(479,464)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.		
	72,059	61,198
Debt issuance premiums, discounts, and issuance costs are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.		
	247,001	247,001
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Compensated absences payable	(94,981)	53,033
Severance benefits payable	448,017	975,578
Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.		
	<u>(48,977)</u>	<u>(56,731)</u>
Change in net position – governmental activities	<u>\$ 1,334,256</u>	<u>\$ 5,001,345</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 General Fund  
 Year Ended June 30, 2013

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>Revenue</b>				
Local sources				
Property taxes	\$ 9,620,000	\$ 10,414,359	\$ 10,599,904	\$ 185,545
Investment earnings	50,000	50,000	27,817	(22,183)
Other	1,756,800	1,473,000	1,589,077	116,077
State sources	49,539,900	51,113,041	50,759,534	(353,507)
Federal sources	2,334,863	2,084,863	2,183,794	98,931
Total revenue	<u>63,301,563</u>	<u>65,135,263</u>	<u>65,160,126</u>	<u>24,863</u>
<b>Expenditures</b>				
Current				
Administration	3,063,221	3,185,073	3,159,778	(25,295)
District support services	2,609,594	2,309,567	2,232,860	(76,707)
Elementary and secondary regular instruction	28,119,718	28,399,513	27,755,921	(643,592)
Vocational education instruction	862,973	863,128	779,510	(83,618)
Special education instruction	10,981,828	10,982,803	10,809,283	(173,520)
Instructional support services	1,773,773	2,263,363	2,345,242	81,879
Pupil support services	9,241,020	9,466,748	9,699,810	233,062
Sites and buildings	7,594,598	7,972,630	8,058,856	86,226
Fiscal and other fixed cost programs	1,205,000	315,000	317,174	2,174
Debt service				
Interest and fiscal charges	25,000	65,000	76,925	11,925
Total expenditures	<u>65,476,725</u>	<u>65,822,825</u>	<u>65,235,359</u>	<u>(587,466)</u>
Net change in fund balances	<u>\$ (2,175,162)</u>	<u>\$ (687,562)</u>	<u>(75,233)</u>	<u>\$ 612,329</u>
<b>Fund balances</b>				
Beginning of year			<u>8,717,242</u>	
End of year			<u>\$ 8,642,009</u>	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Fiduciary Net Position  
as of June 30, 2013

	<u>Employee Benefits Trust Funds</u>
Assets	
Cash and short-term investments	\$ 2,920,354
Accounts and interest receivable	37,195
Investments, at fair value	
State and local bonds	2,003,011
Negotiable certificates of deposit	1,097,736
MNTrust Investment Shares Portfolio	611,031
Total assets	<u>6,669,327</u>
Liabilities	
Accounts payable	1,771,864
Due to governmental funds	508,872
Total liabilities	<u>2,280,736</u>
Net position	
Held in trust for employee benefits and health savings account	<u>\$ 4,388,591</u>

Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2013

	<u>Employee Benefits Trust Funds</u>
Additions	
Contributions	
Plan members	\$ 58,109
Investment earnings	46,279
Total additions	<u>104,388</u>
Deductions	
Benefits paid to plan members	<u>587,765</u>
Change in net position	(483,377)
Net position	
Beginning of year	<u>4,871,968</u>
End of year	<u>\$ 4,388,591</u>

See notes to basic financial statements



INDEPENDENT SCHOOL DISTRICT NO. 831

Notes to Basic Financial Statements  
June 30, 2013

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

**A. Organization**

Independent School District No. 831, Forest Lake, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2013, the District paid TIES \$421,395 for services provided.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in the District's basic financial statements.

**C. Government-Wide Financial Statement Presentation**

The government-wide financial statements (Statement of Net Position and 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 Statements of Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 internally directed revenues are reported instead as general revenues.

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as “depreciation not allocated to other functions.” Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

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

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

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

Fiduciary funds are presented in the fiduciary fund financial statements by type, for which the District has two benefit trust funds. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

### Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

#### Major Governmental Funds

**General Fund** – The General Fund is the government’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2009 taxable OPEB bond issue.

#### Nonmajor Governmental Funds

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is used to record financial activities of the District’s child nutrition program.

**Community Service Special Revenue Fund** – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

**Capital Projects – Building Construction Fund** – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by the District’s MDE-approved alternative facilities levy.

#### Fiduciary Funds

**Health Savings Plan Trust Fund** – The Health Savings Plan Trust Fund is used to administer resources received and held by the District as the trustee for employees participating in the District’s health savings account.

**Post-Employment Benefits Trust Fund** – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

#### E. Budgeting

The School Board adopts an annual budget for the following fiscal year for all governmental funds, except the Capital Projects – Building Construction Fund. The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Expenditures in the Community Service Special Revenue Fund exceeded budgeted appropriations by \$9,105 for the year ended June 30, 2013. Revenues in excess of budget financed this variance.

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

### **F. Cash and Temporary Investments**

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

In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the balance sheet date.

### **G. Receivables**

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable.

### **H. Property Taxes**

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$6,069,982 of the property tax levy collectible in 2013 as revenue to the District in fiscal year 2012–2013. The remaining portion of the taxes collectible in 2013 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor 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 county generally remits taxes to the District at periodic intervals as they are collected.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District.

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

### **I. Inventories**

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

### **J. Prepaid Items**

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

### **K. Capital Assets**

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

The District does not possess material amounts of infrastructure capital assets. Such items are considered to be part of the cost of buildings or other improvable property.

### **L. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

### **M. Compensated Absences**

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end.

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

### N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary. Members of certain employee groups may also elect to receive district matching contributions paid into a tax-deferred matching contribution plan. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual's employment.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

### O. Deferred Inflows of Resources

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which qualify for reporting in this category.

The first item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

### P. Net Position

In the government-wide financial statements, net position represents the difference between assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources. Net Position is displayed in three components:

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

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

### Q. Fund Balance Classifications

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

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

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

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

### R. Deficit Fund Equity

As of June 30, 2013, the District has an accumulated fund balance deficit of \$1,720,222 in its Capital Projects – Building Construction Fund. This deficit will be eliminated through future alternative facilities levies.

### S. Use of Estimates

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

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

**T. Risk Management and Self-Insurance**

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers’ compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District’s insurance coverage in fiscal year 2013.
  
2. **Self-Insurance** – The District uses its General Fund to account for and finance its self-insured risk of loss for an employee dental plan. The dental plan is funded by the District, employee contributions, and interest income. The claims liability of \$162,792 is included in the liabilities of the General Fund at June 30, 2013 and is based on the requirement that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred on the date of the financial statements and the loss can be reasonably estimated. Beginning in fiscal year 2014, the District will be self-insured for health benefits.

Changes in the fund’s claim liability for the past two years were:

	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
2012	\$ 64,177	\$ 554,209	\$ 506,561	\$ 111,825
2013	\$ 111,825	\$ 547,629	\$ 496,662	\$ 162,792

**U. Prior Period Comparative Financial Information/Reclassification**

The financial statements include partial prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District’s financial statements for the year ended June 30, 2012, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

**V. Change in Accounting Principles**

During the year ended June 30, 2013, the District implemented 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*. GASB Statement No. 63 created two new financial statement elements, *deferred outflows of resources* (a consumption of net position that is applicable to a future reporting period) and *deferred inflows of resources* (an acquisition of net position that is applicable to a future reporting period), which are distinct from assets and liabilities. It also defined *net position* as the residual of all other elements presented in a statement of net position (assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position). GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows or resources or inflows (revenues).



## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 2,592,913
Investments	<u>28,308,207</u>
Total deposits and investments	<u>\$ 30,901,120</u>

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 24,268,988
Statement of Fiduciary Net Position	
Cash and short-term investments	2,920,354
Investments	<u>3,711,778</u>
Total deposits and investments	<u>\$ 30,901,120</u>

### B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

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

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

The District’s deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District’s deposits was \$2,592,913 while the balance on the bank records was \$3,059,970. At June 30, 2013, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk		Interest Risk – Maturity Duration in Years		Total
	Rating	Agency	Less Than 1	1 to 5	
U.S. Agency Securities	AA	S&P	\$ 4,499,708	\$ –	\$ 4,499,708
State and local bonds	AA	S&P	\$ 597,266	\$ 1,098,668	1,695,934
State and local bonds	Aa	Moody's	\$ –	\$ 307,077	307,077
Commercial paper	A-1	S&P	\$ 999,867	\$ –	999,867
Negotiable certificates of deposit	N/A	N/A	\$ 15,888,681	\$ 1,593,422	17,482,103
Investment pools/mutual funds					
MN School District Liquid Asset Fund	AAA	S&P			102,821
MNTrust Investment Shares Portfolio	AAA	S&P			2,969,250
Wells Fargo Advantage Government	AAA	S&P			251,447
Total investments					<u>\$ 28,308,207</u>

N/A – Not Applicable

The MN School District Liquid Asset Fund (MSDLAF) and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The District's investment in the MSDLAf and MNTrust Investment Shares Portfolio are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

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

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

**Concentration Risk** – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk. At June 30, 2013, the District’s investment portfolio includes the following percentages of specific issuers:

U.S. agency securities	
Federal Home Loan Bank	7.10%
Federal Home Loan Mortgage Corp.	5.30%

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

### NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,885,726	\$ –	\$ –	\$ 1,885,726
Construction in progress	–	1,720,030	–	1,720,030
Total capital assets, not depreciated	<u>1,885,726</u>	<u>1,720,030</u>	<u>–</u>	<u>3,605,756</u>
Capital assets, depreciated				
Buildings	81,356,255	–	–	81,356,255
Building and land improvements	10,893,137	364,002	–	11,257,139
Furniture and equipment	20,814,357	247,629	(464,362)	20,597,624
Total capital assets, depreciated	<u>113,063,749</u>	<u>611,631</u>	<u>(464,362)</u>	<u>113,211,018</u>
Less accumulated depreciation for				
Buildings	(43,894,285)	(1,744,897)	–	(45,639,182)
Building and land improvements	(4,150,268)	(276,488)	–	(4,426,756)
Furniture and equipment	(19,150,878)	(435,831)	464,362	(19,122,347)
Total accumulated depreciation	<u>(67,195,431)</u>	<u>(2,457,216)</u>	<u>464,362</u>	<u>(69,188,285)</u>
Net capital assets, depreciated	<u>45,868,318</u>	<u>(1,845,585)</u>	<u>–</u>	<u>44,022,733</u>
Total capital assets, net	<u>\$ 47,754,044</u>	<u>\$ (125,555)</u>	<u>\$ –</u>	<u>\$ 47,628,489</u>

Depreciation expense was charged to the following governmental functions:

Administration	\$ 352
District support services	1,765
Elementary and secondary regular instruction	12,524
Vocational education instruction	2,370
Special education instruction	2,453
Instructional support services	4,516
Pupil support services	188,081
Community service	8,533
Food service	138,231
Depreciation not allocated to other functions	<u>2,098,391</u>
Total depreciation expense	<u>\$ 2,457,216</u>

**NOTE 4 – AID ANTICIPATION CERTIFICATES**

Short-term borrowing for cash flow purposes is summarized as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
08/25/2011	09/09/2012	2.00%	\$ 14,735,662	\$ –	\$ 14,735,662	\$ –
08/30/2012	09/10/2013	2.00%	–	17,187,828	–	17,187,828
			<u>\$ 14,735,662</u>	<u>\$ 17,187,828</u>	<u>\$ 14,735,662</u>	<u>\$ 17,187,828</u>

Interest and fiscal charges of \$76,925 were charged to the General Fund during the year, net of reoffering premiums, reflecting a net interest cost of 0.3 percent for the aid anticipation certificates issued in August 2012.

**NOTE 5 – LONG-TERM LIABILITIES**

**A. General Obligation Bonds Payable**

The District currently has the following general obligation bonds payable outstanding:

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Face/Par Value</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Refunding bonds	01/27/2005	5.00%	\$ 34,140,000	02/01/2019	\$ 20,845,000
Taxable OPEB bonds	03/01/2009	3.50–6.00%	\$ 6,450,000	02/01/2030	<u>5,895,000</u>
Total general obligation bonds payable					<u>\$ 26,740,000</u>

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities, or to finance the retirement (refunding) of prior bond issues, or to finance OPEB. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

**B. Other Long-Term Liabilities**

The District offers a number of benefits to its employees, including severance and compensated absences. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

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

**C. Minimum Debt Payments**

Minimum annual principal and interest payments to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 3,285,000	\$ 1,352,941
2015	3,415,000	1,190,641
2016	3,615,000	1,022,091
2017	3,790,000	843,691
2018	3,980,000	655,416
2019–2023	5,485,000	1,356,561
2024–2028	2,100,000	691,041
2029–2030	1,070,000	96,858
	<u>\$ 26,740,000</u>	<u>\$ 7,209,240</u>

**D. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 29,930,000	\$ –	\$ 3,190,000	\$ 26,740,000	\$ 3,285,000
Premium on bonds	1,640,542	–	247,001	1,393,541	–
Total bonds payable	<u>31,570,542</u>	<u>–</u>	<u>3,437,001</u>	<u>28,133,541</u>	<u>3,285,000</u>
Severance benefits payable	3,928,342	–	448,017	3,480,325	946,897
Compensated absences payable	669,710	216,854	121,873	764,691	764,691
	<u>\$ 36,168,594</u>	<u>\$ 216,854</u>	<u>\$ 4,006,891</u>	<u>\$ 32,378,557</u>	<u>\$ 4,996,588</u>

## NOTE 6 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District’s financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

### Classifications

At June 30, 2013, a summary of the District’s governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
<b>Nonspendable</b>				
Inventory	\$ –	\$ –	\$ 104,698	\$ 104,698
Prepaid items	289,105	–	10,406	299,511
Total nonspendable	<u>289,105</u>	<u>–</u>	<u>115,104</u>	<u>404,209</u>
<b>Restricted</b>				
Deferred maintenance	176,340	–	–	176,340
Operating capital	313,303	–	–	313,303
Debt service	–	851,170	–	851,170
Food service	–	–	473,075	473,075
Community education programs	–	–	649,680	649,680
Early childhood family education	–	–	135,115	135,115
School readiness	–	–	23,490	23,490
Community service	–	–	36,094	36,094
Total restricted	<u>489,643</u>	<u>851,170</u>	<u>1,317,454</u>	<u>2,658,267</u>
<b>Assigned</b>				
Severance	946,897	–	–	946,897
Subsequent year budget	1,864,289	–	–	1,864,289
Total assigned	<u>2,811,186</u>	<u>–</u>	<u>–</u>	<u>2,811,186</u>
<b>Unassigned</b>				
Health and safety restricted account deficit	(1,293,317)	–	–	(1,293,317)
Alternative facilities restricted account deficit	–	–	(1,720,222)	(1,720,222)
Unassigned	6,345,392	–	–	6,345,392
Total unassigned	<u>5,052,075</u>	<u>–</u>	<u>(1,720,222)</u>	<u>3,331,853</u>
<b>Total</b>	<u>\$ 8,642,009</u>	<u>\$ 851,170</u>	<u>\$ (287,664)</u>	<u>\$ 9,205,515</u>

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

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

**Teachers’ Retirement Association (TRA)**

**A. Plan Description**

All teachers employed by the 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. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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

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

**Tier I**

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

With these provisions:

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



## **NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

### **Tier II**

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4–5.4 percent per year.

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

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

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

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

### **B. Funding Policy**

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.5 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2013 as employee contributions. The TRA employer contribution rates are 6.5 percent for Coordinated Plan members and 10.5 percent for Basic Plan members during fiscal year 2013. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2012, 2011, and 2010 were approximately \$3.87 billion, \$3.84 billion, and \$3.79 billion, respectively.

The District's contributions for the years ended June 30, 2013, 2012, and 2011 were \$1,830,054, \$1,618,727, and \$1,550,405, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

## **NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

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

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

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

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

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

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

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

## **NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

### **B. Funding Policy**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. The GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2013. In fiscal 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to the GERP for the years ended June 30, 2013, 2012, and 2011 were \$930,000, \$927,769, and \$887,621, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

## **NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

### **A. Plan Description**

The District provides post-employment benefits to certain eligible employees through the District's OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

**Post-Employment Insurance Benefits** – All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

### **B. Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established an Employee Benefits Trust Fund to fund these obligations.

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

**C. Annual OPEB Cost and Net OPEB Obligation**

The District’s annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level 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 following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

ARC	\$	491,798
Interest on net OPEB obligation		(122,867)
Adjustment to ARC		222,704
Annual OPEB cost (expense)		<u>591,635</u>
Contributions made		<u>–</u>
Increase in net OPEB obligation		591,635
Negative net OPEB obligation – beginning of year		<u>(4,095,577)</u>
Negative net OPEB obligation – end of year	\$	<u><u>(3,503,942)</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the (negative) net OPEB obligation for the past three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Negative Net OPEB Obligation</u>
June 30, 2011	\$ 465,480	\$ –	– %	\$ (4,575,041)
June 30, 2012	\$ 479,464	\$ –	– %	\$ (4,095,577)
June 30, 2013	\$ 591,635	\$ –	– %	\$ (3,503,942)

**D. Funded Status and Funding Progress**

As of July 1, 2012, the most recent actuarial valuation date, the plan was 67.6 percent funded. The actuarial accrued liability for benefits was \$6,896,291 and the actuarial value of assets was \$4,658,761, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,237,530. The covered payroll (annual payroll of active employees covered by the plan) was \$34,492,925, and the ratio of the UAAL to the covered payroll was 6.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 immediately following the notes to basic 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.

## NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

### 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of investment expenses) based on the District's own investments; a zero percent rate of projected salary increases; an annual dental cost trend rate of 4.0 percent; and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2012 for the various amortization layers ranged from 26 to 30 years.

### F. Post-Employment Benefits Trust Fund

The District administers a defined benefit OPEB Plan. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan.

The Post-Employment Benefits Trust Fund is reported using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

### G. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	117
Active plan members	<u>761</u>
Total members	<u><u>878</u></u>

## NOTE 9 – FLEXIBLE BENEFIT PLAN

The District has a cafeteria plan (the Plan) established under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the Plan, whether or not such contributions have been made.

**NOTE 9 – FLEXIBLE BENEFIT PLAN (CONTINUED)**

The Plan is administered by the District for child care, medical expense reimbursements, and health insurance premiums. The District withholds amounts from employee payroll checks equal to the amount of the health insurance premiums owing and makes the premium payments when due. These payments are recorded in the General Fund. The medical reimbursement and dependant care activity in the financial statements is accounted for in the General Fund.

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

**NOTE 10 – HEALTHCARE REIMBURSEMENT PLAN**

The District also maintains a healthcare reimbursement plan (the Healthcare Plan) under § 105 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Participants may use the funds contributed by the District to be reimbursed for uninsured health expenses paid, additional costs associated with health insurance coverage, or insurance premiums paid under a spouse or dependant plan.

All assets of the Healthcare Plan are held by the District. The Healthcare Plan is administered by an independent contract administrator and is included in the financial statements in the various district funds.

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

**NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS**

The District had the following interfund receivables and payables at June 30, 2013:

	Due From Other Funds	Due to Other Funds
General Fund	\$ 1,053,318	\$ –
Nonmajor funds	22,977	567,423
Employee Benefits Trust Fund	–	508,872
	<u>\$ 1,076,295</u>	<u>\$ 1,076,295</u>

As of June 30, 2013, the District’s General Fund had an interfund receivable of \$567,423 from the nonmajor Capital Projects – Building Construction Fund to eliminate a temporary cash deficit. Also, as of June 30, 2013, the District’s General Fund and nonmajor Community Service Special Revenue Fund had interfund receivables of \$485,895 and \$22,977, respectively, from the Employee Benefits Trust Fund relating to post-employment benefit costs to be reimbursed.

Such interfund balances are eliminated in the government-wide financial statements.

## NOTE 12 – OPERATING LEASES

The District has operating bus leases for student transportation. The leases have monthly payments ranging from \$1,094 to \$29,893 and expire at various times through October 2018. Operating lease expenditures for the year ended June 30, 2013 were approximately \$681,344.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from \$10,667 to \$12,367 and will expire in August 2016. Operating lease expenditures for the year ended June 30, 2013 were approximately \$134,484.

Future commitments on these leases are as follows:

<u>Year Ending June 30,</u>	<u>Bus Leases</u>	<u>Space Lease</u>
2014	\$ 800,498	\$ 139,884
2015	889,505	144,084
2016	827,573	148,404
2017	773,854	24,734
2018	1,185,420	–
2019	662,642	–
	<u>\$ 5,139,492</u>	<u>\$ 457,106</u>

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

### A. Federal and State Revenues

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

### B. Legal Contingencies

The District has the usual and customary legal claims pending at year-end, mostly of minor nature and/or covered by insurance. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

### C. Construction Contracts

At June 30, 2013, the District had commitments totaling \$1,389,806 under a construction contract for which the work was not yet completed.

REQUIRED SUPPLEMENTARY INFORMATION



INDEPENDENT SCHOOL DISTRICT NO. 831

Required Supplementary Information  
Other Post-Employment Benefits Plan  
June 30, 2013

The following schedules present trend information about the funding progress and amounts contributed to the Other Post-Employment Benefits (OPEB) Plan administered by Independent School District No. 831:

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 6,091,809	\$ -	\$ 6,091,809	- %	\$ 34,384,669	17.7 %
July 1, 2010	\$ 6,302,912	\$ 5,286,971	\$ 1,015,941	83.9 %	\$ 34,140,189	3.0 %
July 1, 2012	\$ 6,896,291	\$ 4,658,761	\$ 2,237,530	67.6 %	\$ 34,492,925	6.5 %

**Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	(Negative) Net OPEB Obligation
2009	\$ 648,127	939.9 %	\$ (5,443,682)
2010	\$ 313,931	- %	\$ (5,040,521)
2011	\$ 357,513	- %	\$ (4,575,041)
2012	\$ 381,261	- %	\$ (4,095,577)
2013	\$ 491,798	- %	\$ (3,503,942)

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds  
 Combining Balance Sheet  
 as of June 30, 2013

	Special Revenue Funds		Capital Projects –	Total
	Food Service	Community Service	Building Construction	
<b>Assets</b>				
Cash and temporary investments	\$ 668,649	\$ 951,372	\$ –	\$ 1,620,021
<b>Receivables</b>				
Current taxes	–	495,298	–	495,298
Delinquent taxes	–	27,503	–	27,503
Accounts and interest	50	84,498	–	84,548
Due from other governmental units	46,039	187,042	–	233,081
Due from other funds	–	22,977	–	22,977
Inventory	104,698	–	–	104,698
Prepaid items	6,155	4,251	–	10,406
<b>Total assets</b>	<b>\$ 825,591</b>	<b>\$ 1,772,941</b>	<b>\$ –</b>	<b>\$ 2,598,532</b>
<b>Liabilities</b>				
Salaries payable	\$ 14,971	\$ 136,874	\$ –	\$ 151,845
Accounts and contracts payable	132,053	276,174	1,152,799	1,561,026
Due to other funds	–	–	567,423	567,423
Due to other governmental units	–	26,393	–	26,393
Unearned revenue	94,639	10,159	–	104,798
<b>Total liabilities</b>	<b>241,663</b>	<b>449,600</b>	<b>1,720,222</b>	<b>2,411,485</b>
<b>Deferred inflows of resources</b>				
Property taxes levied for subsequent year	–	453,434	–	453,434
Unavailable revenue	–	21,277	–	21,277
<b>Total deferred inflows of resources</b>	<b>–</b>	<b>474,711</b>	<b>–</b>	<b>474,711</b>
<b>Fund balances (deficits)</b>				
Nonspendable for inventory	104,698	–	–	104,698
Nonspendable for prepaid items	6,155	4,251	–	10,406
Restricted	473,075	844,379	–	1,317,454
Unassigned	–	–	(1,720,222)	(1,720,222)
<b>Total fund balances (deficits)</b>	<b>583,928</b>	<b>848,630</b>	<b>(1,720,222)</b>	<b>(287,664)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 825,591</b>	<b>\$ 1,772,941</b>	<b>\$ –</b>	<b>\$ 2,598,532</b>

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds  
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Year Ended June 30, 2013

	Special Revenue Funds		Capital Projects –	Total
	Food Service	Community Service	Building Construction	
<b>Revenue</b>				
Local sources				
Property taxes	\$ –	\$ 890,673	\$ –	\$ 890,673
Investment earnings	1,268	981	–	2,249
Other	2,229,856	2,816,782	–	5,046,638
State sources	162,572	480,526	–	643,098
Federal sources	1,324,165	–	–	1,324,165
Total revenue	<u>3,717,861</u>	<u>4,188,962</u>	<u>–</u>	<u>7,906,823</u>
<b>Expenditures</b>				
Current				
Food service	3,764,887	–	–	3,764,887
Community service	–	4,105,224	–	4,105,224
Capital outlay	<u>30,584</u>	<u>11,626</u>	<u>1,720,222</u>	<u>1,762,432</u>
Total expenditures	<u>3,795,471</u>	<u>4,116,850</u>	<u>1,720,222</u>	<u>9,632,543</u>
Net change in fund balances	(77,610)	72,112	(1,720,222)	(1,725,720)
<b>Fund balances (deficits)</b>				
Beginning of year	<u>661,538</u>	<u>776,518</u>	<u>–</u>	<u>1,438,056</u>
End of year	<u>\$ 583,928</u>	<u>\$ 848,630</u>	<u>\$ (1,720,222)</u>	<u>\$ (287,664)</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund  
Comparative Balance Sheet  
as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ 19,744,434	\$ 6,568,742
Receivables		
Current taxes	6,415,806	5,575,361
Delinquent taxes	329,485	446,671
Accounts and interest	254,629	214,883
Due from other governmental units	10,033,577	20,685,122
Due from other funds	1,053,318	523,529
Prepaid items	<u>289,105</u>	<u>237,671</u>
Total assets	<u>\$ 38,120,354</u>	<u>\$ 34,251,979</u>
<b>Liabilities</b>		
Aid anticipation certificates	\$ 17,187,828	\$ 14,735,662
Salaries payable	685,679	674,589
Accounts and contracts payable	5,299,115	4,879,480
Accrued interest payable	282,644	237,539
Due to other governmental units	5,761	17
Unearned revenue	<u>20,000</u>	<u>32,596</u>
Total liabilities	23,481,027	20,559,883
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	5,736,752	4,674,950
Unavailable revenue – delinquent taxes	<u>260,566</u>	<u>299,904</u>
Total deferred inflows of resources	5,997,318	4,974,854
<b>Fund balances (deficits)</b>		
Nonspendable for prepaid items	289,105	237,671
Restricted for deferred maintenance	176,340	184,351
Restricted for operating capital	313,303	30,980
Assigned for severance	946,897	1,002,121
Assigned for subsequent year budget	1,864,289	2,175,162
Unassigned – health and safety restricted account deficit	(1,293,317)	(312,175)
Unassigned	<u>6,345,392</u>	<u>5,399,132</u>
Total fund balances	<u>8,642,009</u>	<u>8,717,242</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 38,120,354</u>	<u>\$ 34,251,979</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
<b>Revenue</b>				
Local sources				
Property taxes	\$ 10,414,359	\$ 10,599,904	\$ 185,545	\$ 10,361,414
Investment earnings	50,000	27,817	(22,183)	57,298
Other	1,473,000	1,589,077	116,077	1,473,792
State sources	51,113,041	50,759,534	(353,507)	50,606,450
Federal sources	2,084,863	2,183,794	98,931	2,975,539
Total revenue	65,135,263	65,160,126	24,863	65,474,493
<b>Expenditures</b>				
Current				
Administration				
Salaries	2,228,323	2,191,925	(36,398)	2,189,613
Employee benefits	820,553	865,855	45,302	808,373
Purchased services	74,092	38,410	(35,682)	78,944
Supplies and materials	15,105	8,791	(6,314)	9,878
Other expenditures	47,000	54,797	7,797	25,411
Total administration	3,185,073	3,159,778	(25,295)	3,112,219
District support services				
Salaries	942,122	970,907	28,785	951,654
Employee benefits	466,064	470,285	4,221	432,848
Purchased services	786,600	649,750	(136,850)	660,220
Supplies and materials	103,981	138,466	34,485	132,602
Other expenditures	10,800	3,452	(7,348)	1,572
Total district support services	2,309,567	2,232,860	(76,707)	2,178,896
Elementary and secondary regular instruction				
Salaries	19,748,330	19,686,553	(61,777)	18,590,239
Employee benefits	7,182,076	6,682,382	(499,694)	6,296,974
Purchased services	742,211	682,652	(59,559)	697,342
Supplies and materials	718,486	686,170	(32,316)	704,438
Capital expenditures	7,460	8,486	1,026	7,352
Other expenditures	950	9,678	8,728	6,180
Total elementary and secondary regular instruction	28,399,513	27,755,921	(643,592)	26,302,525

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual (continued)  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	587,284	481,993	(105,291)	488,988
Employee benefits	219,318	182,361	(36,957)	200,922
Purchased services	10,340	38,077	27,737	40,572
Supplies and materials	43,686	71,478	27,792	74,273
Capital expenditures	2,500	5,601	3,101	2,247
Other expenditures	—	—	—	1,426
Total vocational education instruction	863,128	779,510	(83,618)	808,428
Special education instruction				
Salaries	7,644,481	7,597,762	(46,719)	7,367,511
Employee benefits	2,579,633	2,546,744	(32,889)	2,301,797
Purchased services	663,467	591,685	(71,782)	805,024
Supplies and materials	69,222	56,320	(12,902)	48,804
Capital expenditures	23,000	12,935	(10,065)	16,661
Other expenditures	3,000	3,837	837	3,140
Total special education instruction	10,982,803	10,809,283	(173,520)	10,542,937
Instructional support services				
Salaries	1,159,399	1,157,013	(2,386)	1,120,108
Employee benefits	425,878	462,002	36,124	409,467
Purchased services	358,685	423,069	64,384	403,457
Supplies and materials	292,006	282,858	(9,148)	112,933
Capital expenditures	16,795	14,910	(1,885)	95
Other expenditures	10,600	5,390	(5,210)	12,373
Total instructional support services	2,263,363	2,345,242	81,879	2,058,433
Pupil support services				
Salaries	4,679,760	4,517,919	(161,841)	4,380,299
Employee benefits	1,728,858	1,785,175	56,317	1,561,468
Purchased services	1,737,212	2,079,108	341,896	2,231,227
Supplies and materials	1,276,296	1,252,199	(24,097)	1,200,825
Capital expenditures	42,312	55,359	13,047	99,706
Other expenditures	2,310	10,050	7,740	8,250
Total pupil support services	9,466,748	9,699,810	233,062	9,481,775

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual (continued)  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,942,645	1,681,796	(260,849)	1,770,502
Employee benefits	919,983	983,380	63,397	896,268
Purchased services	3,023,100	3,163,151	140,051	2,694,133
Supplies and materials	823,260	763,010	(60,250)	683,960
Capital expenditures	1,263,142	1,466,255	203,113	1,481,586
Other expenditures	500	1,264	764	450
Total sites and buildings	<u>7,972,630</u>	<u>8,058,856</u>	<u>86,226</u>	<u>7,526,899</u>
Fiscal and other fixed cost programs				
Purchased services	315,000	317,174	2,174	296,349
Debt service				
Interest and fiscal charges	<u>65,000</u>	<u>76,925</u>	<u>11,925</u>	<u>59,239</u>
Total expenditures	<u>65,822,825</u>	<u>65,235,359</u>	<u>(587,466)</u>	<u>62,367,700</u>
Net change in fund balances	<u>\$ (687,562)</u>	<u>(75,233)</u>	<u>\$ 612,329</u>	3,106,793
Fund balances				
Beginning of year		<u>8,717,242</u>		<u>5,610,449</u>
End of year		<u>\$ 8,642,009</u>		<u>\$ 8,717,242</u>



INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ 668,649	\$ 780,811
Receivables		
Accounts and interest	50	918
Due from other governmental units	46,039	40,359
Inventory	104,698	69,527
Prepaid items	<u>6,155</u>	<u>7,065</u>
Total assets	<u>\$ 825,591</u>	<u>\$ 898,680</u>
<b>Liabilities</b>		
Salaries payable	\$ 14,971	\$ 16,358
Accounts and contracts payable	132,053	134,477
Unearned revenue	<u>94,639</u>	<u>86,307</u>
Total liabilities	241,663	237,142
<b>Fund balances</b>		
Nonspendable for inventory	104,698	69,527
Nonspendable for prepaid items	6,155	7,065
Restricted for food service	<u>473,075</u>	<u>584,946</u>
Total fund balances	<u>583,928</u>	<u>661,538</u>
Total liabilities and fund balances	<u>\$ 825,591</u>	<u>\$ 898,680</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 2,000	\$ 1,268	\$ (732)	\$ 4,213
Other – primarily meal sales	2,304,910	2,229,856	(75,054)	2,339,343
State sources	173,653	162,572	(11,081)	172,966
Federal sources	1,273,879	1,324,165	50,286	1,191,353
Total revenue	<u>3,754,442</u>	<u>3,717,861</u>	<u>(36,581)</u>	<u>3,707,875</u>
Expenditures				
Current				
Salaries	1,470,500	1,482,593	12,093	1,499,447
Employee benefits	391,587	416,967	25,380	402,426
Purchased services	160,400	163,416	3,016	155,721
Supplies and materials	1,831,770	1,700,459	(131,311)	1,756,639
Other expenditures	4,000	1,452	(2,548)	1,950
Capital outlay	120,000	30,584	(89,416)	117,490
Total expenditures	<u>3,978,257</u>	<u>3,795,471</u>	<u>(182,786)</u>	<u>3,933,673</u>
Net change in fund balances	<u>\$ (223,815)</u>	<u>(77,610)</u>	<u>\$ 146,205</u>	<u>(225,798)</u>
Fund balances				
Beginning of year		<u>661,538</u>		<u>887,336</u>
End of year		<u>\$ 583,928</u>		<u>\$ 661,538</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ 951,372	\$ 762,001
Receivables		
Current taxes	495,298	508,335
Delinquent taxes	27,503	34,487
Accounts and interest	84,498	57,106
Due from other governmental units	187,042	278,240
Due from other funds	22,977	18,672
Prepaid items	<u>4,251</u>	<u>5,346</u>
Total assets	<u>\$ 1,772,941</u>	<u>\$ 1,664,187</u>
<b>Liabilities</b>		
Salaries payable	\$ 136,874	\$ 134,124
Accounts and contracts payable	276,174	232,614
Due to other governmental units	26,393	-
Unearned revenue	<u>10,159</u>	<u>33,852</u>
Total liabilities	449,600	400,590
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	453,434	464,169
Unavailable revenue – delinquent taxes	<u>21,277</u>	<u>22,910</u>
Total deferred inflows of resources	474,711	487,079
<b>Fund balances</b>		
Nonspendable for prepaid items	4,251	5,346
Restricted for community education programs	649,680	591,399
Restricted for early childhood family education programs	135,115	133,619
Restricted for school readiness	23,490	11,209
Restricted for community service	<u>36,094</u>	<u>34,945</u>
Total fund balances	<u>848,630</u>	<u>776,518</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,772,941</u>	<u>\$ 1,664,187</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 880,245	\$ 890,673	\$ 10,428	\$ 843,320
Investment earnings	3,500	981	(2,519)	2,942
Other – primarily tuition and fees	2,670,539	2,816,782	146,243	2,852,070
State sources	497,250	480,526	(16,724)	501,963
Total revenue	<u>4,051,534</u>	<u>4,188,962</u>	<u>137,428</u>	<u>4,200,295</u>
Expenditures				
Current				
Salaries	2,794,898	2,665,534	(129,364)	2,703,727
Employee benefits	795,726	878,838	83,112	803,736
Purchased services	345,045	388,824	43,779	372,267
Supplies and materials	161,226	169,182	7,956	183,700
Other expenditures	2,500	2,846	346	3,375
Capital outlay	8,350	11,626	3,276	10,221
Total expenditures	<u>4,107,745</u>	<u>4,116,850</u>	<u>9,105</u>	<u>4,077,026</u>
Net change in fund balances	<u>\$ (56,211)</u>	72,112	<u>\$ 128,323</u>	123,269
Fund balances				
Beginning of year		<u>776,518</u>		<u>653,249</u>
End of year		<u>\$ 848,630</u>		<u>\$ 776,518</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund  
Balance Sheet  
as of June 30, 2013

Assets	<u><u>\$</u></u> <u>–</u>
Liabilities	
Accounts and contracts payable	\$ 1,152,799
Due to other funds	<u>567,423</u>
Total liabilities	1,720,222
Fund balances (deficit)	
Unassigned – alternative facilities restricted account deficit	<u>(1,720,222)</u>
Total liabilities and fund balances	<u><u>\$</u></u> <u>–</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2013

Expenditures	
Capital outlay	
Purchased services	\$ 193
Capital expenditures	<u>1,720,029</u>
Total expenditures	<u>1,720,222</u>
Net change in fund balances	(1,720,222)
Fund balances (deficits)	
Beginning of year	<u>-</u>
End of year	<u>\$ (1,720,222)</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund  
 Comparative Balance Sheet by Account  
 as of June 30, 2013  
 (With Comparative Actual Amounts as of June 30, 2012)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2013	2012
<b>Assets</b>				
Cash and temporary investments	\$ 2,603,088	\$ 301,445	\$ 2,904,533	\$ 2,757,005
Receivables				
Current taxes	2,366,823	301,354	2,668,177	2,671,891
Delinquent taxes	130,318	14,668	144,986	178,764
Due from other governmental units	1,178	152	1,330	75,248
	<u>5,101,407</u>	<u>617,619</u>	<u>5,719,026</u>	<u>5,682,908</u>
<b>Total assets</b>				
	<u>\$ 5,101,407</u>	<u>\$ 617,619</u>	<u>\$ 5,719,026</u>	<u>\$ 5,682,908</u>
<b>Deferred inflows of resources</b>				
Property taxes levied for subsequent year	\$ 4,218,419	\$ 537,108	\$ 4,755,527	\$ 4,750,683
Unavailable revenue – delinquent taxes	101,312	11,017	112,329	120,335
	<u>4,319,731</u>	<u>548,125</u>	<u>4,867,856</u>	<u>4,871,018</u>
<b>Total deferred inflows of resources</b>				
	<u>4,319,731</u>	<u>548,125</u>	<u>4,867,856</u>	<u>4,871,018</u>
<b>Fund balances</b>				
Restricted for debt service	781,676	69,494	851,170	811,890
	<u>781,676</u>	<u>69,494</u>	<u>851,170</u>	<u>811,890</u>
<b>Total deferred inflows of resources and fund balances</b>				
	<u>\$ 5,101,407</u>	<u>\$ 617,619</u>	<u>\$ 5,719,026</u>	<u>\$ 5,682,908</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account  
 Budget and Actual  
 Year Ended June 30, 2013  
 (With Comparative Actual Amounts for the Year Ended June 30, 2012)

	Budget	2013 Actual	
		Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	\$ 4,146,000	\$ 4,194,326	\$ 540,498
Investment earnings	–	2,698	–
State sources	152,000	8,671	1,120
Total revenue	<u>4,298,000</u>	<u>4,205,695</u>	<u>541,618</u>
Expenditures			
Debt service			
Principal	3,190,000	2,990,000	200,000
Interest	1,509,441	1,191,750	317,691
Fiscal charges and other	15,000	8,167	425
Total expenditures	<u>4,714,441</u>	<u>4,189,917</u>	<u>518,116</u>
Net change in fund balances	<u>\$ (416,441)</u>	15,778	23,502
Fund balances			
Beginning of year		<u>765,898</u>	<u>45,992</u>
End of year		<u>\$ 781,676</u>	<u>\$ 69,494</u>



		2012	
Total	Over (Under) Budget	Actual	
\$ 4,734,824	\$ 588,824	\$ 4,082,033	
2,698	2,698	10,502	
9,791	(142,209)	210,784	
<u>4,747,313</u>	<u>449,313</u>	<u>4,303,319</u>	
3,190,000	-	2,990,000	
1,509,441	-	1,656,316	
8,592	(6,408)	21,086	
<u>4,708,033</u>	<u>(6,408)</u>	<u>4,667,402</u>	
39,280	<u>\$ 455,721</u>	(364,083)	
<u>811,890</u>		<u>1,175,973</u>	
<u>\$ 851,170</u>		<u>\$ 811,890</u>	

INDEPENDENT SCHOOL DISTRICT NO. 831

Employee Benefit Trust Funds  
 Combining Statement of Fiduciary Net Position  
 as of June 30, 2013

	Health Savings Plan	Post-Employment Benefits	Totals
<b>Assets</b>			
Cash and short-term investments	\$ 1,965,126	\$ 955,228	\$ 2,920,354
Accounts and interest receivable	1,837	35,358	37,195
<b>Investments, at fair value</b>			
State and local bonds	-	2,003,011	2,003,011
Negotiable certificates of deposit	-	1,097,736	1,097,736
MNTrust Investment Shares Portfolio	-	611,031	611,031
Total assets	<u>1,966,963</u>	<u>4,702,364</u>	<u>6,669,327</u>
<b>Liabilities</b>			
Accounts payable	1,771,864	-	1,771,864
Due to governmental funds	-	508,872	508,872
Total liabilities	<u>1,771,864</u>	<u>508,872</u>	<u>2,280,736</u>
<b>Net position</b>			
Held in trust for employee benefits and health savings accounts	<u>\$ 195,099</u>	<u>\$ 4,193,492</u>	<u>\$ 4,388,591</u>

Employee Benefit Trust Funds  
 Combining Statement of Changes in Fiduciary Net Position  
 Year Ended June 30, 2013

	Health Savings Plan	Post-Employment Benefits	Totals
<b>Additions</b>			
<b>Contributions</b>			
Plan members	\$ 58,109	\$ -	\$ 58,109
Investment earnings	2,426	43,853	46,279
Total additions	<u>60,535</u>	<u>43,853</u>	<u>104,388</u>
<b>Deductions</b>			
Benefits paid to plan members	<u>78,643</u>	<u>509,122</u>	<u>587,765</u>
Change in net position	(18,108)	(465,269)	(483,377)
<b>Net position</b>			
Beginning of year	<u>213,207</u>	<u>4,658,761</u>	<u>4,871,968</u>
End of year	<u>\$ 195,099</u>	<u>\$ 4,193,492</u>	<u>\$ 4,388,591</u>

OTHER DISTRICT INFORMATION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Revenue by Type  
Last Ten Fiscal Years

Year Ended June 30,	Program Revenues		General Revenues			Total
	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	
2004	\$ 5,562,221 8%	\$ 7,735,020 11%	\$ 15,681,141 22%	\$ 42,525,621 58%	\$ 862,884 1%	\$ 72,366,887 100%
2005	6,067,984 8%	7,679,669 11%	11,923,890 17%	45,270,716 62%	1,310,745 2%	72,253,004 100%
2006	5,959,923 8%	8,416,425 11%	8,616,859 12%	48,818,522 66%	2,375,266 3%	74,186,995 100%
2007	6,016,801 8%	8,063,764 11%	13,094,867 17%	45,730,983 61%	2,339,937 3%	75,246,352 100%
2008	6,485,734 8%	9,185,900 12%	14,823,882 19%	46,666,381 59%	1,866,334 2%	79,028,231 100%
2009	6,317,834 8%	8,948,473 12%	15,746,200 20%	46,440,215 59%	809,674 1%	78,262,396 100%
2010	6,157,018 8%	9,452,410 13%	14,997,282 20%	43,413,186 58%	622,628 1%	74,642,524 100%
2011	6,370,292 8%	10,511,839 14%	20,845,675 27%	38,446,379 50%	645,610 1%	76,819,795 100%
2012	6,148,601 8%	11,485,954 14%	15,230,036 20%	44,173,101 57%	591,559 1%	77,629,251 100%
2013	6,115,186 8%	11,490,994 14%	16,176,424 21%	43,429,388 56%	553,293 1%	77,765,285 100%

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function  
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services
2004	\$ 2,648,704 4%	\$ 1,734,566 3%	\$ 30,278,671 44%	\$ 1,094,004 2%	\$ 8,469,262 13%	\$ 2,695,026 4%
2005	2,809,209 4%	2,035,563 3%	29,076,858 41%	1,175,448 2%	8,709,225 12%	3,556,477 5%
2006	2,757,056 4%	2,049,890 3%	28,579,775 40%	1,038,149 1%	9,655,088 13%	2,898,715 4%
2007	2,967,850 4%	2,047,037 3%	26,655,680 38%	1,041,434 1%	9,496,252 13%	3,209,324 4%
2008	3,051,613 4%	2,245,112 3%	27,717,976 37%	1,094,090 1%	9,695,917 13%	5,448,310 7%
2009	3,225,772 4%	1,739,222 2%	26,371,372 35%	965,967 1%	9,693,826 13%	5,610,049 8%
2010	3,147,946 4%	1,702,804 2%	28,492,182 39%	956,606 1%	9,584,548 13%	2,331,929 3%
2011	3,111,531 4%	2,164,587 3%	30,673,422 40%	920,206 1%	10,368,127 14%	1,598,026 2%
2012	3,100,536 4%	2,197,394 3%	25,576,188 35%	810,798 1%	10,620,873 15%	2,077,860 3%
2013	3,201,925 4%	2,254,471 3%	27,594,183 36%	781,880 1%	10,918,573 14%	2,369,743 3%

Note: The District made a change in how the allocation of depreciation expense is presented in fiscal year 2006.

Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
\$ 6,804,043 10%	\$ 6,401,717 9%	\$ 338,699 -	\$ 2,865,040 4%	\$ 2,980,790 4%	\$ - -	\$ 2,379,748 3%	\$ 68,690,270 100%
6,786,125 10%	6,361,464 9%	325,692 -	3,284,838 5%	3,290,745 5%	- -	3,132,711 4%	70,544,355 100%
6,602,951 9%	6,212,304 9%	329,624 -	3,190,074 4%	3,274,598 5%	2,189,995 3%	3,689,830 5%	72,468,049 100%
7,040,995 10%	6,562,584 9%	260,642 -	3,599,104 5%	3,608,328 5%	2,182,321 3%	3,470,489 5%	72,142,040 100%
8,055,470 10%	7,000,987 9%	270,631 -	3,843,780 5%	3,846,748 5%	2,201,117 3%	2,643,884 3%	77,115,635 100%
7,868,603 11%	7,633,246 10%	273,996 -	3,961,742 5%	4,152,305 6%	2,208,316 3%	1,598,247 2%	75,302,663 100%
7,668,210 11%	7,705,210 11%	264,920 -	3,932,226 5%	3,965,024 6%	2,178,622 3%	1,659,947 2%	73,590,174 100%
8,948,191 12%	7,157,893 9%	281,925 -	3,888,660 5%	4,073,291 5%	2,194,397 3%	1,565,753 2%	76,946,009 100%
9,731,943 13%	6,538,037 9%	296,349 -	4,037,265 6%	4,085,559 6%	2,126,662 3%	1,428,442 2%	72,627,906 100%
9,928,802 13%	7,684,483 10%	317,174 1%	3,891,749 5%	4,113,757 5%	2,098,391 3%	1,275,898 2%	76,431,029 100%

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Revenue by Source  
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2004	\$ 10,660,212 17%	\$ 46,725,091 76%	\$ 2,103,153 4%	\$ 1,753,443 3%	\$ 61,241,899 100%
2005	7,331,659 12%	49,652,412 82%	1,792,104 3%	1,800,101 3%	60,576,276 100%
2006	4,372,565 7%	53,297,447 86%	1,946,196 3%	2,195,700 4%	61,811,908 100%
2007	8,457,227 14%	49,617,283 79%	2,463,213 4%	1,858,222 3%	62,395,945 100%
2008	10,066,599 15%	51,412,562 78%	2,657,533 4%	1,951,422 3%	66,088,116 100%
2009	10,914,411 17%	51,121,188 78%	2,347,273 3%	1,487,289 2%	65,870,161 100%
2010	10,431,320 17%	43,539,037 69%	7,374,372 12%	1,668,808 2%	63,013,537 100%
2011	15,333,557 24%	44,072,843 68%	3,300,695 5%	1,734,346 3%	64,441,441 100%
2012	10,361,414 16%	50,606,450 77%	2,975,539 5%	1,531,090 2%	65,474,493 100%
2013	10,599,904 16%	50,759,534 78%	2,183,794 4%	1,616,894 2%	65,160,126 100%

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function  
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2004	\$ 2,644,716 4%	\$ 1,681,278 3%	\$ 27,782,628 47%	\$ 1,095,426 2%	\$ 8,484,810 14%
2005	2,806,218 5%	1,995,598 3%	27,164,930 46%	1,172,729 2%	8,698,078 14%
2006	2,760,130 5%	2,006,210 3%	27,693,138 46%	1,035,779 2%	9,657,613 15%
2007	2,953,560 5%	2,043,448 3%	28,207,427 45%	1,039,064 2%	9,522,655 15%
2008	2,966,614 4%	2,243,347 3%	28,931,023 43%	1,091,720 2%	9,691,275 14%
2009	3,613,965 5%	1,949,761 3%	31,798,935 44%	1,077,914 2%	9,691,245 14%
2010	3,042,912 5%	1,691,524 3%	29,049,049 46%	954,236 2%	9,503,795 15%
2011	3,051,637 5%	2,147,647 3%	29,779,750 46%	917,836 1%	10,293,896 16%
2012	3,112,219 5%	2,178,896 4%	26,302,525 42%	808,428 1%	10,542,937 17%
2013	3,159,778 5%	2,232,860 3%	27,755,921 43%	779,510 1%	10,809,283 17%



<u>Instructional Support Services</u>	<u>Pupil Support Services</u>	<u>Sites and Buildings</u>	<u>Other Programs</u>	<u>Total</u>
\$ 2,305,745 4%	\$ 6,614,500 11%	\$ 8,689,188 14%	\$ 441,673 1%	\$ 59,739,964 100%
3,225,609 5%	6,565,441 11%	7,757,664 13%	785,541 1%	60,171,808 100%
2,889,663 5%	6,585,926 11%	7,064,417 12%	900,773 1%	60,593,649 100%
3,204,444 5%	7,321,452 12%	7,417,758 12%	366,580 1%	62,076,388 100%
5,443,794 8%	8,422,890 13%	7,923,051 12%	336,721 1%	67,050,435 100%
5,877,717 8%	8,454,240 12%	8,937,592 12%	340,086 –	71,741,455 100%
2,300,442 4%	7,410,014 12%	8,335,957 13%	334,789 –	62,622,718 100%
1,581,361 2%	8,661,991 14%	8,023,299 12%	342,586 1%	64,800,003 100%
2,058,433 3%	9,481,775 15%	7,526,899 12%	355,588 1%	62,367,700 100%
2,345,242 3%	9,699,810 15%	8,058,856 12%	394,099 1%	65,235,359 100%

INDEPENDENT SCHOOL DISTRICT NO. 831

School Tax Levies and Tax Rates by Fund  
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
<b>Levies</b>					
	2004	\$ 7,611,248	\$ 604,917	\$ 4,409,613	\$ 12,625,778
	2005	7,236,750	648,212	4,239,165	12,124,127
	2006	8,306,042	677,634	4,254,284	13,237,960
	2007	9,457,159	672,044	4,278,001	14,407,204
	2008	11,427,166	646,625	4,300,748	16,374,539
	2009	11,003,562	811,642	3,863,851	15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
	2011	10,432,345	877,092	4,315,521	15,624,958
	2012	9,886,190	903,832	4,750,683	15,540,705
	2013	11,377,392	882,776	4,755,527	17,015,695
<b>Tax rates</b>					
Tax capacity rates					
	2004	7.211	1.648	12.013	20.872
	2005	4.792	1.495	9.777	16.064
	2006	3.834	1.405	8.821	14.060
	2007	3.291	1.223	7.785	12.299
	2008	6.560	1.121	7.456	15.137
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
	2011	5.497	1.676	8.238	15.411
	2012	5.458	1.901	9.972	17.331
	2013	8.949	2.050	11.020	22.019
Market value rates					
	2004	0.14238	—	—	0.14238
	2005	0.12735	—	—	0.12735
	2006	0.14346	—	—	0.14346
	2007	0.14980	—	—	0.14980
	2008	0.13758	—	—	0.13758
	2009	0.13385	—	—	0.13385
	2010	0.13710	—	—	0.13710
	2011	0.15293	—	—	0.15293
	2012	0.15390	—	—	0.15390
	2013	0.17389	—	—	0.17389

Note: A tax rate based on market value is used primarily for the District's referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values  
Last Ten Fiscal Years

For Taxes Collectible	Net Tax Capacities				
	Agricultural	Non-Agricultural	Tax Increment	Fiscal Disparities	
				Contribution	Distribution
2004	\$ 1,940,174	\$ 34,020,370	\$ (835,194)	\$ (1,730,466)	\$ 2,814,992
2005	2,411,895	40,145,142	(1,046,493)	(2,052,670)	3,002,063
2006	2,481,373	45,627,433	(1,141,785)	(2,401,535)	3,206,563
2007	2,709,315	52,086,704	(1,411,751)	(2,644,014)	3,683,949
2008	2,874,655	56,154,555	(1,469,991)	(3,228,204)	4,124,028
2009	2,922,594	57,485,174	(1,680,233)	(3,385,987)	4,606,475
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891
2011	1,892,928	51,378,555	(1,383,497)	(3,871,485)	4,938,071
2012	1,739,170	46,408,764	(1,294,513)	(3,580,022)	4,830,499
2013	1,741,624	42,273,461	(1,232,190)	(3,176,279)	4,443,326

Source: State of Minnesota School Tax Report

<u>Total Taxable</u>	<u>Market Value</u>
\$ 36,209,876	\$ 3,149,668,601
42,459,937	3,725,534,200
47,772,049	4,217,089,550
54,424,203	4,768,571,475
58,455,043	5,127,128,875
59,948,023	5,186,459,175
58,146,764	4,988,746,100
52,954,572	4,505,366,200
48,103,898	4,290,135,700
44,049,942	3,939,600,600

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables  
Last Ten Fiscal Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2004	\$ 10,857,282	\$ 1,153,214	\$ 615,282	\$ 12,625,778
2005	10,631,729	1,029,769	462,629	12,124,127
2006	11,927,070	900,660	410,230	13,237,960
2007	13,065,100	1,018,059	324,045	14,407,204
2008	14,935,081	1,087,795	351,663	16,374,539
2009	14,061,436	1,295,342	322,277	15,679,055
2010	13,330,800	1,289,782	315,671	14,936,253
2011	13,968,510	1,265,177	391,271	15,624,958
2012	14,095,828	1,444,877	–	15,540,705
2013	15,567,747	1,447,948	–	17,015,695

Note: A portion of the total spread levy is paid through various property tax credits, which are paid through state aids. Legislative changes beginning with taxes collectible in 2012 significantly changed the calculation of tax credits applied and paid through state aids.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2013

Delinquent		Current	
Amount	Percent	Amount	Percent
\$ -	- %	\$ -	- %
-	-	-	-
-	-	-	-
14,824	0.10	-	-
18,698	0.11	-	-
41,941	0.27	-	-
72,824	0.49	-	-
106,362	0.68	-	-
247,325	1.59	-	-
<u>-</u>	<u>-</u>	<u>9,579,281</u>	<u>56.30</u>
<u>\$ 501,974</u>		<u>\$ 9,579,281</u>	

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment  
Last Ten Fiscal Years

Year Ended June 30,	Adjusted Average Daily Membership (ADM)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2004	57.64	510.03	3,390.43	3,680.34	7,638.44	8,821.44
2005	71.10	455.68	3,252.05	3,691.93	7,470.76	8,668.05
2006	68.93	441.65	3,201.44	3,682.22	7,394.24	8,591.93
2007	88.27	441.24	3,117.69	3,608.74	7,255.94	8,425.83
2008	98.84	419.61	3,043.15	3,551.31	7,112.91	8,292.99
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	94.90	417.96	2,981.31	3,279.96	6,774.13	7,870.97
2011	94.25	467.22	2,980.06	3,209.66	6,751.19	7,808.82
2012	95.96	401.75	2,980.94	3,214.68	6,693.33	7,779.21
2013	101.20	393.97	2,962.40	3,201.21	6,658.78	7,738.34

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1-3	Elementary 4-6	Secondary
Fiscal 2004 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2013	1.250	1.000	0.612	1.115	1.060	1.300

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS



INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	\$ 150,388
National School Lunch Program	10.555	<u>1,173,777</u>
Total child nutrition cluster		1,324,165
<b>U.S. Department of Education</b>		
Passed through Minnesota Department of Education		
Special education cluster		
Special Education – Grants to States	84.027	1,277,580
Special Education – Preschool Grants	84.173	<u>37,745</u>
Total special education cluster		1,315,325
Title I Grants to Local Educational Agencies	84.010	614,242
Special Education – Grants for Infants and Families	84.181	28,353
Improving Teacher Quality State Grants	84.367	200,655
Passed through Intermediate District No. 916		
Career and Technical Education – Basic Grants to States	84.048	<u>15,950</u>
Total federal awards		<u><u>\$ 3,498,690</u></u>

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with 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 District's basic financial statements.

Note 2: Non-monetary assistance of \$158,179 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

Note 3: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 4: The District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA No.	Amount Provided
Title I Grants to Local Educational Agencies	84.010	\$ 15,426

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

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, 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. 831, Forest Lake, Minnesota (the District) 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, and have issued our report thereon dated November 18, 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.

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

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

(continued)

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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*.

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota  
November 18, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, Minnesota

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Independent School District No. 831, Forest Lake, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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 Costs.

**MANAGEMENT'S RESPONSIBILITY**

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

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on compliance for each of the 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 a legal determination of the District's compliance.

(continued)

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page 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 on the previous page. 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.

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

Minneapolis, Minnesota

November 18, 2013

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, 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. 831, Forest Lake, Minnesota (the District) 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, and have issued our report thereon dated November 18, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit included 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*. 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 solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota  
November 18, 2013

INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

**Financial Statements**

What type of auditor's report is issued?   X   Unmodified  
     Qualified  
     Adverse  
     Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

Significant deficiency(ies) identified?      Yes   X   None reported

Noncompliance material to the financial statements noted?      Yes   X   No

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?      Yes   X   No

Significant deficiency(ies) identified?      Yes   X   None reported

Type of auditor's report issued on compliance for major programs?

U.S. Department of Education – Special education cluster Unmodified  
U.S. Department of Agriculture – Child nutrition cluster Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?      Yes   X   No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education – special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555

Threshold for distinguishing type A and B programs.    \$ 300,000

Does the auditee qualify as a low-risk auditee?      Yes   X   No

INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2013

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None.

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT**

None.

**E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – MAJOR FEDERAL AWARD  
PROGRAMS AUDIT**

**MATERIAL WEAKNESS IN INTERNAL CONTROL – SPECIAL EDUCATION CLUSTER (SPECIAL  
EDUCATION – GRANTS TO STATES – CFDA NO. 84.027; SPECIAL EDUCATION – PRESCHOOL  
GRANTS – CFDA NO. 84.173)**

**2012-001 Internal Controls Over Activities Allowed and Allowable Cost Principles**

**Condition** – During our audit of the year ended June 30, 2012, we noted that Independent School District No. 831, Forest Lake, Minnesota (the District) did not have sufficient controls in place to assure compliance with this requirement for the major program noted above, which resulted in noncompliance with a type of federal compliance requirement that could have a direct and material effect on this program. Five of thirteen employees tested did not have personal activity reports completed for time coded to the program in order to verify the services were performed.

**Recommendation** – We recommended that the District improve procedures and internal controls over the collection and retention of personal activity reports for services provided in the special education program.

**Current Status** – The recommendation has been implemented, and this was not a finding in the current year.



INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2013

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 65,160,126	\$ 65,160,125	\$ 1
Total expenditures		\$ 65,235,359	\$ 65,235,359	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 289,105	\$ 289,105	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ 176,340	\$ 176,340	\$ –
406	Health and safety	\$ (1,293,317)	\$ (1,293,317)	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 313,303	\$ 313,303	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ 2,811,186	\$ 2,811,186	\$ –
Unassigned				
422	Unassigned fund balance	\$ 6,345,392	\$ 6,345,392	\$ –
<b>Food Service</b>				
Total revenue		\$ 3,717,861	\$ 3,717,861	\$ –
Total expenditures		\$ 3,795,471	\$ 3,795,471	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 110,853	\$ 110,853	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 473,075	\$ 473,075	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ 4,188,962	\$ 4,188,960	\$ 2
Total expenditures		\$ 4,116,850	\$ 4,116,849	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ 4,251	\$ 4,251	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 649,680	\$ 649,680	\$ –
432	ECFE	\$ 135,115	\$ 135,115	\$ –
444	School readiness	\$ 23,490	\$ 23,490	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 36,094	\$ 36,094	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2013

	Audit	UFARS	Audit – UFARS
<b>Building Construction</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ 1,720,222	\$ 1,720,222	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve			
407 Capital projects levy	\$ –	\$ –	\$ –
409 Alternative facility program	\$ (1,720,222)	\$ (1,720,222)	\$ –
413 Project funded by COP	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>			
Total revenue	\$ 4,205,695	\$ 4,205,694	\$ 1
Total expenditures	\$ 4,189,917	\$ 4,189,917	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve			
425 Bond refundings	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ 781,676	\$ 781,676	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>			
Total revenue	\$ 60,535	\$ 60,536	\$ (1)
Total expenditures	\$ 78,643	\$ 78,643	\$ –
422 Net position	\$ 195,099	\$ 195,099	\$ –
<b>Internal Service</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Revocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>			
Total revenue	\$ 43,853	\$ 43,854	\$ (1)
Total expenditures	\$ 509,122	\$ 509,122	\$ –
422 Net position	\$ 4,193,492	\$ 4,193,492	\$ –
<b>OPEB Debt Service Fund</b>			
Total revenue	\$ 541,618	\$ 541,619	\$ (1)
Total expenditures	\$ 518,116	\$ 518,116	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 69,494	\$ 69,494	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

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