

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

INDEPENDENT SCHOOL DISTRICT NO. 877

TABLE OF CONTENTS

BOARD OF EDUCATION AND ADMINISTRATION	1	
INDEPENDENT AUDITOR'S REPORT	2	
MANAGEMENT'S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements:		
Statement of Net Assets	22	
Statement of Activities.....	23	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	24	
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	25	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	26	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	27	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	28	
Statement of Fiduciary Net Assets.....	29	
Statement of Changes in Fiduciary Net Assets.....	29	
Notes to the Financial Statements.....	31	
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Funding Progress – Other Post Employment Benefits	62	
Schedule of Employer Contributions – Other Post Employment Benefits.....	62	
SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Detail – General Fund	64	
Combining Balance Sheet – Nonmajor Governmental Funds	67	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	68	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Food Service Fund.....	69	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Community Service Fund.....	70	
Schedule of Expenditures of Federal Awards.....	71	
Notes to the Schedule of Expenditures of Federal Awards	72	
OTHER DISTRICT INFORMATION		
Deferred Tax Levies	74	
Property Tax Levies, Rates and Valuations.....	75	
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>		77

INDEPENDENT SCHOOL DISTRICT NO. 877

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>.....	79
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	81
REPORT ON LEGAL COMPLIANCE.....	83
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE.....	84

INDEPENDENT SCHOOL DISTRICT NO. 877

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

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dave Wilson	Chairperson	December 31, 2013
Sue Lee	Vice Chairperson	December 31, 2015
Melissa Brings	Clerk	December 31, 2015
Doug Olson	Treasurer	December 31, 2013
Patti Pokorney	Acting Clerk/Treasurer	December 31, 2015
Dean Perry	Director	December 31, 2013
Laurie Raymond	Director	December 31, 2015
<u>Administration</u>		
Scott Thielman	Superintendent	
Gary Kawlewski	Director of Finance and Operations	
Tina Burkholder	Controller	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2011 financial statements and, in our report dated September 30, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the fiscal year ended June 30, 2011, from which such partial information was derived.



In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, the Schedule of Funding Progress – Other Post Employment Benefits and the Schedule of Employer Contributions – Other Post Employment Benefits on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The accompanying supplementary information identified in the Table of Contents, Uniform Financial Accounting and Reporting Standards Compliance Table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. The Other District Information identified in the Table of Contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Kern Dewenter, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 3, 2012

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INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-2012 fiscal year include the following:

- The District's total combined net assets increased over 13.46% over the course of the year and were \$ 30.8 million at June 30, 2012.
- During the year, the District's expenses were \$64.1 million and its revenues were \$67.8 million. Revenues increased by \$2.7 million from the prior year.
- The General Fund reported an unassigned fund balance this year of \$ 7.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

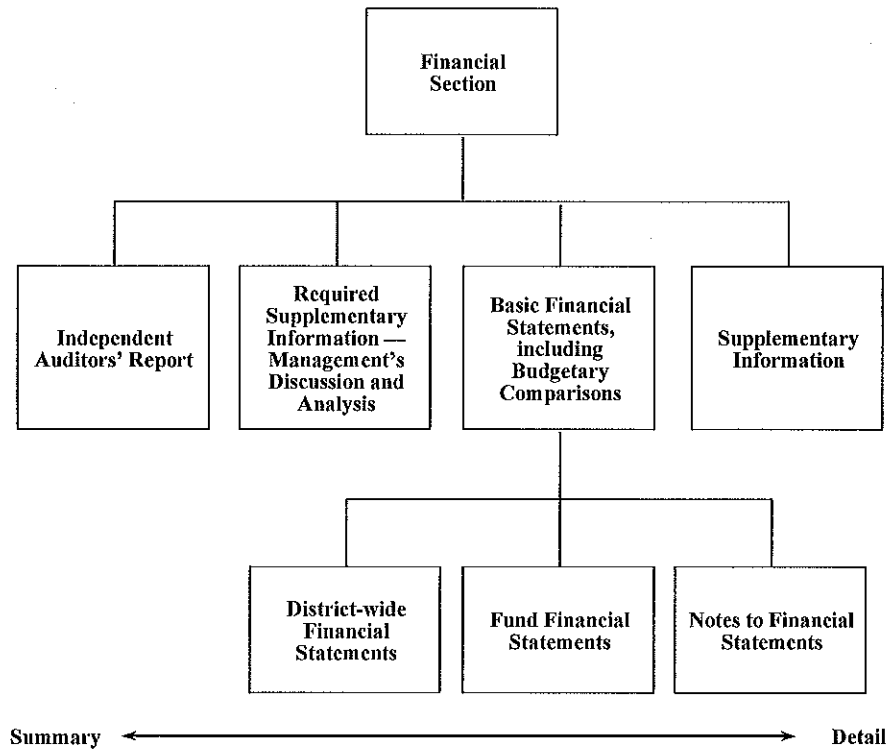
- The first two statements are the district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements also include notes that explain in more detail information in the basic financial statements. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Financial Report



INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Statements	Fund Financial Statements - Governmental	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary, such as special education, building maintenance, food service and community education	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

District-Wide Statements

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

The two district-wide statements report the District's net assets and how they have changed. The term "net assets" is defined as the difference between the District's assets and liabilities and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Fund Financial Statements

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

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

The District has one type of fund:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's consolidated net assets increased 13.46% and were \$ 30,758,891 on June 30, 2012 (See Table A-1). The District's total assets increased 29.9% primarily due to proceeds received from an advanced refunding of general obligation bonds. Additionally, the district saw an increase in the state aid receivable from the aid payment shift causing a higher year end receivable. Total liabilities increased 35.36% due to the district's advance refunding of general obligation bonds.

The restricted net assets decreased mainly from the change in the restricted for debt service. The unrestricted net assets increased due to the positive operations in the general fund.

Table A-1
The District's Net Assets

	Governmental Activities		Percentage Change
	2012	2011	
ASSETS:			
Current and Other Assets	\$ 63,534,812	\$ 27,467,933	131.31%
Capital and Non-Current Assets	82,739,540	85,376,278	-3.09%
Total Assets	<u>\$ 146,274,352</u>	<u>\$ 112,844,211</u>	29.63%
LIABILITIES:			
Current Liabilities	52,822,282	19,187,106	175.30%
Long-Term Liabilities	63,229,291	66,547,660	-4.99%
Total Liabilities	<u>\$ 116,051,573</u>	<u>\$ 85,734,766</u>	35.36%
NETASSETS:			
Invested in Capital Assets, Net of Related Debt	\$ 17,166,721	\$ 16,075,381	6.79%
Restricted	694,355	999,936	-30.56%
Unrestricted	12,897,815	10,034,128	28.54%
Total Net Assets	<u>\$ 30,758,891</u>	<u>\$ 27,109,445</u>	13.46%

Change in Net Assets

The net change in assets for 2011-2012 was \$ 3,649,446 based on total revenues of \$ 67.8 million and total expenses of \$ 64.1 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table A-2
Change in Net Assets

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2011</u>	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 4,863,375	\$ 4,477,579	8.62%
Operating Grants and Contributions	11,060,195	11,306,492	-2.18%
Capital Grants and Contributions	1,320,158	1,319,102	0.08%
General Revenues:			
Property Taxes	12,989,852	14,890,269	-12.76%
Unrestricted State Aid	34,842,652	31,896,634	9.24%
Investment Earnings	18,566	25,183	-26.28%
Other	2,642,105	1,185,466	122.87%
Income (Loss) from Joint Venture	27,206	(55,525)	-149.00%
Gain on Sale of Capital Assets	89	-	0.00%
Total Revenues	<u>67,764,198</u>	<u>65,045,200</u>	4.18%
EXPENSES:			
Administration	1,563,606	1,580,175	-1.05%
District Support Services	1,153,408	1,428,968	-19.28%
Regular Instruction	28,832,295	28,382,760	1.58%
Vocational Education Instruction	1,440,789	1,460,241	-1.33%
Special Education Instruction	8,943,786	9,278,119	-3.60%
Instructional Support Services	2,943,129	2,898,662	1.53%
Pupil Support Services	4,560,338	4,666,301	-2.27%
Sites and Buildings	5,054,869	4,917,678	2.79%
Fiscal and Other Fixed Cost Programs	201,271	133,443	50.83%
Food Service	2,999,095	2,906,023	3.20%
Community Service	3,244,783	2,971,686	9.19%
Interest and Fiscal Charges on Long-term Liabilities	<u>3,177,383</u>	<u>3,084,384</u>	3.02%
Total Expenses	64,114,752	63,708,440	0.64%
CHANGE IN NET ASSETS:			
CHANGE IN NET ASSETS:	3,649,446	1,336,760	173.01%
Beginning Net Assets	<u>27,109,445</u>	<u>25,772,685</u>	5.19%
Ending Net Assets	<u>\$ 30,758,891</u>	<u>\$ 27,109,445</u>	13.46%

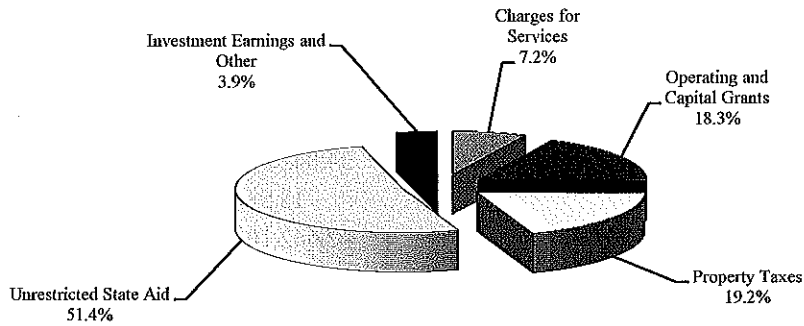
INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

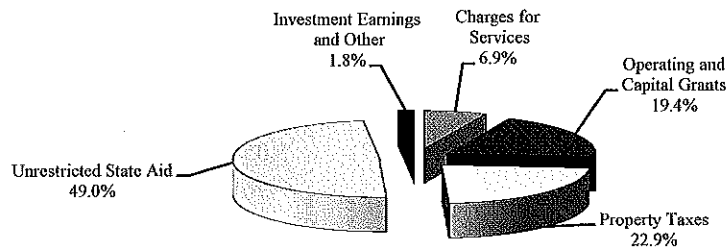
Revenues

The District's total revenues were approximately \$ 67.8 million for the year ended June 30, 2012. Property taxes and state formula aid accounted for 71% of total revenue for the year (See Figure A-3). Another 4% came from other general revenues combined with investment earnings, and the remaining 25% from program revenues.

Figure A-3
Sources of District's Revenues for Fiscal 2012



Sources of District's Revenues for Fiscal 2011



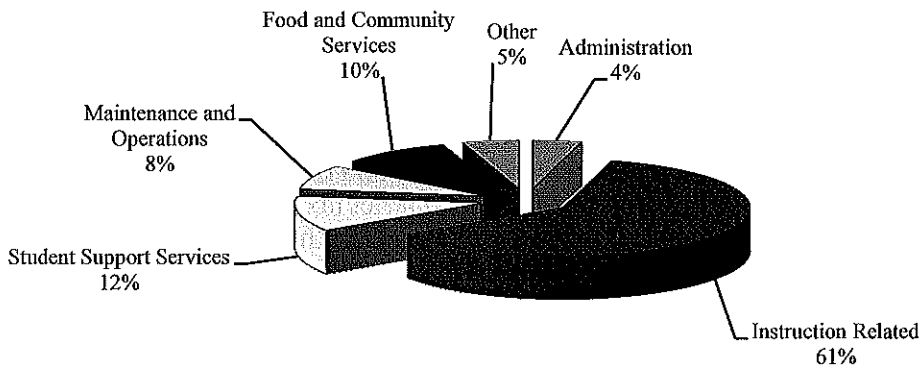
INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

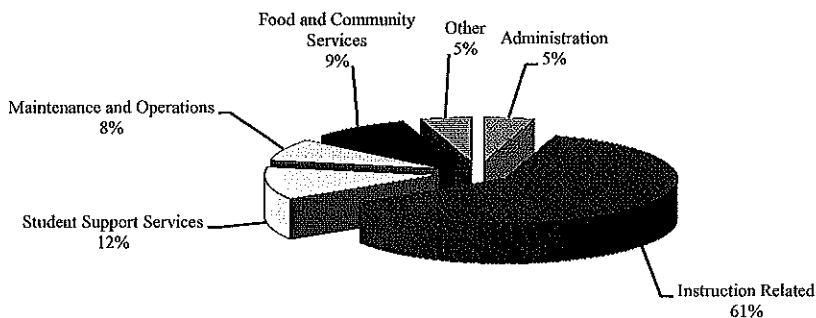
Expenses

The total cost of all programs and services increased .64% to \$ 64,114,459. The District's expenses are predominantly related to educating, caring for and transporting students. The administrative expenses of the District accounted for 4% of total costs for 2011-12 and 5% for fiscal year 2010-11 (see Figure A-4).

Figure A-4
District Expenses for Fiscal 2012



District Expenses for Fiscal 2011



INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds of food service and community education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 73% of those resources are spent on instruction and support services associated with instruction.

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Some of the cost was paid by the users of the District's program revenue of \$ 4,863,375. The federal and state governments subsidized certain programs with grants and contributions (\$ 11,060,195 for operating purposes and \$ 1,320,158 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of \$ 50,520,470. The remaining portion of governmental activities was paid for with \$ 12,989,852 in property taxes, \$ 34,842,652 of state aid based on the state-wide education aid formula and \$ 2,687,966 with investment earnings and other general revenues.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2012	2011		2012	2011	
Administration	\$ 1,563,606	\$ 1,580,175	-1.05%	\$ 1,563,606	\$ 1,580,175	-1.05%
District Support Services	1,153,408	1,428,968	-19.28%	1,135,286	1,414,013	-19.71%
Regular Instruction	28,832,295	28,382,760	1.58%	24,424,738	24,114,783	1.29%
Vocational Education						
Instruction	1,440,789	1,460,241	-1.33%	1,440,567	1,460,241	-1.35%
Special Education						
Instruction	8,943,786	9,278,119	-3.60%	2,695,036	2,731,140	-1.32%
Instructional Support						
Services	2,943,129	2,898,662	1.53%	2,942,954	2,898,042	1.55%
Pupil Support Services	4,560,338	4,666,301	-2.27%	4,328,573	4,434,822	-2.40%
Sites and Buildings	5,054,869	4,917,678	2.79%	4,196,842	4,062,280	3.31%
Fiscal and Other Fixed						
Cost Programs	201,271	133,443	50.83%	174,987	116,155	50.65%
Food Service	2,999,095	2,906,023	3.20%	119,991	49,068	144.54%
Community Service	3,244,783	2,971,686	9.19%	671,061	660,164	1.65%
Interest and Fiscal Charges						
on Long-term Liabilities	3,177,383	3,084,384	3.02%	3,177,383	3,084,384	3.02%
Total	<u>\$ 64,114,752</u>	<u>\$ 63,708,440</u>	0.64%	<u>\$ 46,871,024</u>	<u>\$ 46,605,267</u>	0.57%

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 51,018,848. Of this amount, \$ 36,272,296 is restricted to cover future debt obligations as well as advance refund general obligation bonds that closed during the 2011-12 year.

Revenues for the District's governmental funds were \$ 67,842,516 while total expenditures were \$ 65,902,732. After factoring in Other Financing Sources, the District completed the year with a net change in fund balance of \$ 37,102,577.

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues.

	Year Ended		Change	
	June 30, 2012	June 30, 2011	Increase (Decrease)	Percent
Property Taxes	\$ 5,722,356	\$ 7,567,980	\$(1,845,624)	-24.39%
Other Local and County Revenues	2,394,891	1,916,786	478,105	24.94%
State Sources	43,450,184	40,626,197	2,823,987	6.95%
Federal Sources	2,831,837	2,177,310	654,527	30.06%
Sales and Other Conversion of Assets	60,247	44,830	15,417	34.39%
Total Revenue	\$ 54,459,515	\$ 52,333,103	\$ 2,126,412	4.06%

Total General Fund revenue increased from the previous year by \$ 2,126,412, or 4.06%. Property taxes revenue decreased \$ 1,845,624 from the 2010-2011 fiscal year with the implementation of the State's property tax shift. Revenue from state sources increased \$ 2,823,987 due to the change in the State's property tax shift and an increase in the State's General Education Revenue formula allowance. The revenue from federal sources increased \$ 654,527 due to the net change of the Education Jobs bill funds being utilized in this fiscal year as the ARRA funds ceased in 2011-12.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

GENERAL FUND

The following schedule presents a summary of General Fund expenditures.

Table A-5				
General Fund Expenditures				
	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 29,718,240	\$ 29,355,872	\$ 362,368	1.23%
Employee Benefits	10,393,384	9,992,701	400,683	4.01%
Purchased Services	7,660,954	7,615,841	45,113	0.59%
Supplies and Materials	2,268,740	2,177,662	91,078	4.18%
Capital Expenditures	1,793,948	2,409,625	(615,677)	-25.55%
Other Expenditures	419,395	335,508	83,887	25.00%
Total Expenditures	<u>\$ 52,254,661</u>	<u>\$ 51,887,209</u>	<u>\$ 367,452</u>	0.71%

Total General Fund expenditures increased \$ 367,452, or .71%, from the previous year. The District maintained its expenditures for the 2011-2012 school year with the continuation of conservative budgeting practices.

In the 2011-2012 school year, General Fund revenues and other financing sources exceeded expenditures by \$ 2,313,900. As a result, the total fund balance at June 30, 2012 increased to \$ 14,373,264, of which \$ 6,236,391 is restricted, committed, or assigned. The unassigned fund balance increased from the prior year, ending at a balance of \$ 8,136,873 at June 30, 2012, or 15.60% of expenditures with the non-spendable fund balance of \$ 417,092 included. The District closely monitors its fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

GENERAL BUDGETARY HIGHLIGHTS

The District revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fall into the following two categories:

- Change in salaries from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Changes in revenue entitlements from state aid proration and enrollment changes in weighted average daily membership (WADM).

While the District's final budget for the General Fund anticipated that revenues and other sources would exceed expenditures by more than \$ 971,854, the actual results for the year show \$ 2,313,900 excess revenue and other financing sources over expenditures. Revenues were under the District's final budget by 0.01% whereas expenditures were under budget by 2.77%.

- Actual revenues were slightly less than expected by \$ 6,023 and right on target. The District received less local property tax revenue than anticipated which was offset by recognizing more state general education aid in 2011-2012 due to the state's property tax shift.
- Actual expenditures were \$ 1,490,523 under budget reflecting the District's conservative budgeting practices. The district was under budget by more than \$425,000 due to lower energy usage through conservation and a mild winter and through lower than expected transportation costs. Employee benefits were under budget by \$302,270. The District had \$130,000 budgeted for short-term borrowing but could delay this for another year due to the state increasing the aid shift percentage and, thus, causing a positive cash flow balance as of June 30th. The \$100,000 district copier lease program was not utilized for the 2011-12 year but will be utilized for 2012-13.

CAPITAL PROJECTS AND DEBT SERVICE FUNDS

There was no activity in the Building Construction Fund during the 2011-2012 school year since all projects funded by the 2003 building bond referendum were completed and closed out.

The Debt Service Fund expenditures exceeded revenue by \$ 240,586 in fiscal year 2011-2012. The district also had \$35,053,747 of Other Financing Sources due to an advance refunding of its 2003B General Obligation Bonds and the 2005A Alternative Facilities Bonds. The remaining fund balance of \$36,218,555 at June 30, 2012 is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

OTHER NONMAJOR FUNDS

The Food Service Fund expenditures exceeded revenues and other financing sources by \$ 108,757 decreasing its fund balance to \$ 27,390. The food service department had less a la carte sales with increased costs from labor and supply costs. A dish room remodel for Montrose was planned and budgeted in 2010-2011 but was moved to the 2011-12 year. The number of meals served was similar to the prior year, but the District received slightly higher federal reimbursement rates for meals served.

The Community Service Fund revenues and other financing sources exceeded expenditures by \$ 57,498 and increased its fund balance to \$ 345,898 at June 30, 2012.

The Post Employment Debt Service Fund revenues exceeded expenditures by \$ 26,775 and increased its fund balance to \$ 53,741 at June 30, 2012. The balance will be used for future debt service obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested approximately \$ 114.8 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices, (see Table A-6). This amount represents a net increase of \$ 280,248, or 0.24%, from last year. Total depreciation expense for the year was approximately \$ 3.5 million. More detailed information about capital assets can be found in Note 4 to the financial statements.

Table A-6
The District's Capital Assets

	2012	2011	Percentage Change
Land	\$ 4,224,158	\$ 4,224,158	0.00%
Construction in Progress	41,394	391,043	N/A
Land Improvements	2,960,182	2,960,182	0.00%
Buildings and Improvements	102,304,427	101,766,156	0.53%
Equipment and Transportation Vehicles	5,226,431	5,134,805	1.78%
Total Historical Cost	114,756,592	114,476,344	0.24%
Less Accumulated Depreciation	(42,675,641)	(39,205,742)	8.85%
Total	\$ 72,080,951	\$ 75,270,602	-4.24%

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Construction – Next Five Years

The District renovated the middle school tennis courts and completed the project during the 2011-2012 school year. The project was in progress as of June 30, 2011. The District partnered with the City of Buffalo to finance the \$ 500,000 tennis court renovation.

An alternate facility project is in the Review and Comment process with the Minnesota Department of Education as of June 30, 2012. The alternative facility project is the final ventilation project for the district and is at Parkside Elementary and estimated to cost \$ 3.99 million. Work is tentatively scheduled to begin in the summer of 2013.

Long-Term Debt

At year-end, the District had \$ 100,610,382 in general obligation (G.O.) bonds and capital leases, an increase of 43.88% from last year as shown in Table A-7. The District also had \$ 1,454,045 in future post-employment severance benefits payable at June 30, 2012. The School Board has committed \$ 4,118,869 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

Table A-7
The District's Long-Term Liabilities

	2012	2011	Percentage Change
G.O. Bonds	\$ 94,230,000	\$ 67,230,000	40.16%
Net Bond Premium and Discount	4,202,380	401,177	947.51%
Net G.O. Bonds	98,432,380	67,631,177	45.54%
Obligations Under Capital Leases	2,178,002	2,294,044	-5.06%
Net G.O. Bonds and Capital Leases	100,610,382	69,925,221	43.88%
Severance Payable	1,115,241	1,141,704	-2.32%
Compensated Absences Payable	338,804	341,469	-0.78%
Total	<u>\$ 102,064,427</u>	<u>\$ 71,408,394</u>	42.93%

Bond Ratings

The District's G.O. bonds carry an MSDE enhanced rating of Aa2 according to the most recent Moody's Investor Service Rating.

INDEPENDENT SCHOOL DISTRICT NO. 877
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Limitations on Debt

The state limits the amount of G.O. debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit.

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 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.

During the 2011 State Legislative session, the basic general education formula was increased by \$ 50 per pupil unit for the next two years. The District will also qualify for a new state aid component called Literacy Aid in fiscal year 2013 which could amount to an additional \$ 50 per pupil unit. However, the legislature moved the state aid payment shift from 70/30 for fiscal year 2011 to 64.3/35.7 for 2012 and beyond. This will cause school districts to borrow funds for cash flow. This will negate some of the gains seen on the formula for the next two years. The District's operating referendum of \$ 379 per pupil expires after the 2012-13 fiscal year. The District held a vote to extend the levy for another 10 years in November of 2011 and the levy was renewed for a ten-year period. Both existing referendums plus some level of increase in state funding will be needed for districts to maintain existing programs over the next two year period. Even though the additional funding will help create some funding stability, the District will need to continue its conservative budgeting practices.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and 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 Office, Independent School District No. 877, 214 1st Avenue NE, Buffalo, Minnesota 55313.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 877

**STATEMENT OF NET ASSETS
June 30, 2012
(With Comparative Totals as of June 30, 2011)**

	Governmental Activities	
	2012	2011
ASSETS		
Cash and Investments	\$ 3,092,493	\$ 4,949,177
Cash with Fiscal Agent	34,825,672	-
Current Property Taxes Receivable	7,111,834	7,374,905
Delinquent Property Taxes Receivable	293,866	399,479
Accounts Receivable	188,152	181,143
Interest Receivable	2,297	345
Due from Department of Education	16,006,660	13,202,959
Due from Federal Government through Department of Education	1,092,012	349,019
Due from Other Minnesota School Districts	120,697	44,342
Due from Other Governmental Units	305,310	229,478
Inventory	152,564	146,780
Prepaid Items	343,255	335,009
Advance of Unearned General Education Aid	309,617	318,907
Property Tax Shift Adjustment	20	(63,610)
Deferred Charges	226,475	-
Equity Interest in Joint Venture	984,156	956,950
Net OPEB Asset	9,674,433	9,148,726
Capital Assets not being Depreciated:		
Land	4,224,158	4,224,158
Capital Assets, Net of Accumulated Depreciation:		
Construction in Progress	41,394	391,043
Land Improvements	954,598	1,094,085
Buildings	65,266,444	67,738,360
Machinery and Equipment	1,594,357	1,822,956
	\$ 146,810,464	\$ 112,844,211
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 819,854	\$ 1,199,628
Salaries and Benefits Payable	803,329	856,896
Interest Payable	1,475,296	1,253,346
Due to Other Minnesota School Districts	244,560	132,091
Due to Other Governmental Units	130,251	147,825
Unearned Revenue	105,573	181,076
Property Taxes Levied for Subsequent Year's Expenditures	10,408,283	10,555,510
Bond Payable, Net:		
Payable Within One Year	38,300,000	4,215,000
Payable After One Year	60,132,380	63,416,177
Capital Lease Payable:		
Payable Within One Year	176,447	225,108
Payable After One Year	2,001,555	2,068,936
Compensated Absences Payable:		
Payable Within One Year	338,804	341,469
Severance Payable:		
Payable Within One Year	19,885	79,157
Payable After One Year	1,095,356	1,062,547
Total Liabilities	116,051,573	85,734,766
Net Assets		
Invested in Capital Assets, Net of Related Debt	17,166,721	16,075,381
Restricted for:		
Debt Service	148,463	410,762
Other Purposes	545,892	589,174
Unrestricted	12,897,815	10,034,128
Total Net Assets	30,758,891	27,109,445
	\$ 146,810,464	\$ 112,844,211

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

INDEPENDENT SCHOOL DISTRICT NO. 877

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2012

(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2012	2011
Governmental Activities						
Administration	\$ 1,563,606	\$ -	\$ -	\$ -	\$ (1,563,606)	\$ (1,580,175)
District Support Services	1,153,408	18,122	-	-	(1,135,286)	(1,414,013)
Elementary and Secondary Regular Instruction	28,832,295	475,408	3,445,817	486,332	(24,424,758)	(24,114,783)
Vocational Education Instruction	1,440,789	-	222	-	(1,440,567)	(1,460,241)
Special Education Instruction	8,943,786	363,081	5,885,669	-	(2,695,036)	(2,731,140)
Instructional Support Services	2,943,129	175	-	-	(2,942,954)	(2,898,042)
Pupil Support Services	4,560,338	98,400	133,365	-	(4,328,573)	(4,434,822)
Sites and Buildings	5,054,869	24,201	-	833,826	(4,196,842)	(4,062,280)
Fiscal and Other Fixed Cost Programs	201,271	26,284	-	-	(174,987)	(116,155)
Food Service	2,999,095	1,722,750	1,156,354	-	(119,991)	(49,068)
Community Education and Services	3,244,783	2,134,954	438,768	-	(671,061)	(660,164)
Interest and Fiscal Charges on Long-Term Debt	3,177,383	-	-	-	(3,177,383)	(3,084,384)
Total Governmental Activities	\$ 64,114,752	\$ 4,863,375	\$ 11,060,195	\$ 1,320,158	(46,871,024)	(46,605,267)
General Revenues						
Taxes:						
Property Taxes, Levied for General Purposes					5,673,905	7,600,733
Property Taxes, Levied for Community Service					568,099	792,636
Property Taxes, Levied for Debt Service					6,747,848	6,496,900
State Aid-Formula Grants					34,842,652	31,896,634
Other General Revenues					2,642,105	1,185,466
Investment Income					18,566	25,183
Net Income (Loss) from Joint Venture					27,206	(55,525)
Gain on Sale of Capital Assets					89	-
Total General Revenues					50,520,470	47,942,027
Change in Net Assets					3,649,446	1,336,760
Net Assets - Beginning					27,109,445	25,772,685
Net Assets - Ending					\$ 30,758,891	\$ 27,109,445

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

INDEPENDENT SCHOOL DISTRICT NO. 877

BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2012
 (With Comparative Totals as of June 30, 2011)

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds	
				2012	2011
ASSETS					
Cash and Investments	\$ -	\$ 2,635,442	\$ 457,051	\$ 3,092,493	\$ 4,949,177
Cash with Fiscal Agent	-	34,825,672	-	34,825,672	-
Current Property Taxes Receivable	2,921,736	3,604,806	585,292	7,111,834	7,374,905
Delinquent Property Taxes Receivable	126,340	145,833	21,693	293,866	399,479
Accounts Receivable	181,119	-	7,033	188,152	181,143
Interest Receivable	2,297	-	-	2,297	345
Due from Department of Education	15,701,718	136,685	168,257	16,006,660	13,202,959
Due from Federal Government through Department of Education	1,092,012	-	-	1,092,012	349,019
Due from Other Minnesota School Districts	77,891	-	42,806	120,697	44,342
Due from Other Governmental Units	305,310	-	-	305,310	229,478
Due from Other Funds	-	1,666,751	-	1,666,751	-
Inventory	77,819	-	74,745	152,564	146,780
Prepaid Items	339,273	-	3,982	343,255	335,009
Advance of Unearned General Education Aid	295,292	-	14,325	309,617	318,907
Property Tax Shift Adjustment	20	-	-	20	(63,610)
Total Assets	\$ 21,120,827	\$ 43,015,189	\$ 1,375,184	\$ 65,511,200	\$ 27,467,933
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 776,693	\$ -	\$ 43,161	\$ 819,854	\$ 1,199,628
Salaries and Benefits Payable	858,349	-	(55,020)	803,329	856,896
Due to Other Minnesota School Districts	244,560	-	-	244,560	132,091
Due to Other Governmental Units	130,107	-	144	130,251	147,825
Due to Other Funds	1,645,495	-	21,256	1,666,751	-
Deferred Revenue	136,340	145,833	117,266	399,439	580,555
Property Taxes Levied for Subsequent Year's Expenditures	2,936,134	6,650,801	821,348	10,408,283	10,555,510
Severance Payable	19,885	-	-	19,885	79,157
Total Liabilities	6,747,563	6,796,634	948,155	14,492,352	13,551,662
Fund Balances					
Nonspendable	417,092	-	78,727	495,819	481,789
Restricted	74,811	36,218,555	399,639	36,693,005	1,844,463
Committed	4,118,869	-	-	4,118,869	3,965,750
Assigned	2,042,711	-	-	2,042,711	1,347,227
Unassigned	7,719,781	-	(51,337)	7,668,444	6,277,042
Total Fund Balances	14,373,264	36,218,555	427,029	51,018,848	13,916,271
Total Liabilities and Fund Balances	\$ 21,120,827	\$ 43,015,189	\$ 1,375,184	\$ 65,511,200	\$ 27,467,933

INDEPENDENT SCHOOL DISTRICT NO. 877

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
Total Fund Balances - Governmental Funds	\$ 51,018,848	\$ 13,916,271
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	114,756,592	114,476,344
Less Accumulated Depreciation	(42,675,641)	(39,205,742)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.		
Equity Interest in Joint Venture - Wright Technical Center	984,156	956,950
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond Principal Payable	(94,230,000)	(67,230,000)
Net Premium on Bonds Payable	(4,202,380)	(401,177)
Deferred Charges	226,475	-
Capital Lease Payable	(2,178,002)	(2,294,044)
Compensated Absences Payable	(338,804)	(341,469)
Severance Payable	(1,095,356)	(1,062,547)
Net OPEB asset created through treatment of General Obligation (G.O.) Taxable OPEB Bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.		
	9,674,433	9,148,726
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	293,866	399,479
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.		
	<u>(1,475,296)</u>	<u>(1,253,346)</u>
Total Net Assets - Governmental Activities	<u>\$ 30,758,891</u>	<u>\$ 27,109,445</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)**

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>	
				2012	2011
REVENUES					
Local Property Taxes	\$ 5,722,356	\$ 6,309,547	\$ 1,063,562	\$ 13,095,465	\$ 14,818,764
Other Local and County Revenues	2,394,891	4,597	2,239,822	4,639,310	3,932,825
Revenue from State Sources	43,450,184	382,871	624,674	44,457,729	41,321,242
Revenue from Federal Sources	2,831,837	-	1,035,178	3,867,015	3,200,986
Sales and Other Conversion of Assets	60,247	-	1,722,750	1,782,997	1,755,403
Total Revenues	<u>54,459,515</u>	<u>6,697,015</u>	<u>6,685,986</u>	<u>67,842,516</u>	<u>65,029,220</u>
EXPENDITURES					
Current					
Administration	1,585,702	-	-	1,585,702	1,551,574
District Support Services	1,127,479	-	-	1,127,479	1,388,422
Elementary and Secondary Regular Instruction	25,605,340	-	-	25,605,340	24,586,883
Vocational Education Instruction	1,443,608	-	-	1,443,608	1,437,294
Special Education Instruction	8,946,078	-	-	8,946,078	8,868,874
Instructional Support Services	2,570,376	-	-	2,570,376	2,443,701
Pupil Support Services	4,569,622	-	-	4,569,622	4,650,999
Sites and Buildings	4,411,237	-	-	4,411,237	4,416,394
Fiscal and Other Fixed Cost Programs	201,271	-	-	201,271	133,443
Food Service	-	-	2,933,905	2,933,905	2,825,861
Community Education and Services	-	-	3,200,879	3,200,879	2,959,658
Capital Outlay					
Administration	2,769	-	-	2,769	8,366
District Support Services	10,848	-	-	10,848	6,934
Elementary and Secondary Regular Instruction	342,638	-	-	342,638	279,212
Vocational Education Instruction	9,523	-	-	9,523	13,525
Special Education Instruction	97,542	-	-	97,542	341,892
Instructional Support Services	303,421	-	-	303,421	352,243
Pupil Support Services	1,341	-	-	1,341	539
Sites and Buildings	1,025,866	-	-	1,025,866	1,406,914
Food Service	-	-	59,293	59,293	-
Community Education and Services	-	-	21,955	21,955	28,378
Debt Service					
Principal	-	4,215,000	-	4,215,000	3,995,000
Interest and Fiscal Charges	-	2,722,601	494,438	3,217,039	3,343,890
Total Expenditures	<u>52,254,661</u>	<u>6,937,601</u>	<u>6,710,470</u>	<u>65,902,732</u>	<u>65,039,996</u>
Excess of Revenues Over (Under) Expenditures	2,204,854	(240,586)	(24,484)	1,939,784	(10,776)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	89	-	-	89	5,867
Bond Issuance	-	31,215,000	-	31,215,000	-
Bond Premium	-	3,838,747	-	3,838,747	-
Proceeds from Capital Leases	108,957	-	-	108,957	391,043
Total Other Financing Sources (Uses)	<u>109,046</u>	<u>35,053,747</u>	<u>-</u>	<u>35,162,793</u>	<u>396,910</u>
Net Change in Fund Balances	2,313,900	34,813,161	(24,484)	37,102,577	386,134
FUND BALANCES					
Beginning of Year	<u>12,059,364</u>	<u>1,405,394</u>	<u>451,513</u>	<u>13,916,271</u>	<u>13,530,137</u>
End of Year	<u>\$ 14,373,264</u>	<u>\$ 36,218,555</u>	<u>\$ 427,029</u>	<u>\$ 51,018,848</u>	<u>\$ 13,916,271</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)**

	<u>2011</u>	<u>2010</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 37,102,577	\$ 386,134
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlays	317,487	733,248
Depreciation Expense	(3,507,138)	(3,532,224)
Loss on Disposal	-	(13,120)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	27,206	(55,525)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	2,665	(919)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(32,809)	(64,776)
Proceeds of general obligation (G.O.) Taxable OPEB Bonds issued during fiscal year 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.	525,707	(280,639)
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on the net assets in the Statement of Activities.	4,439,999	4,221,576
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(221,950)	224,999
Governmental funds report the effect of bond discounts, premiums and issuance costs when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(3,574,728)	37,544
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.	(31,323,957)	(391,043)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(105,613)	71,505
Change in Net Assets - Governmental Activities	<u>\$ 3,649,446</u>	<u>\$ 1,336,760</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Property Taxes	\$ 5,644,642	\$ 7,782,203	\$ 5,722,356	\$ (2,059,847)
Other Local and County Revenues	1,928,817	2,341,095	2,394,891	53,796
Revenue from State Sources	42,996,736	41,386,464	43,450,184	2,063,720
Revenue from Federal Sources	2,767,671	2,919,276	2,831,837	(87,439)
Sales and Other Conversion of Assets	40,800	36,500	60,247	23,747
Total Revenues	<u>53,378,666</u>	<u>54,465,538</u>	<u>54,459,515</u>	<u>(6,023)</u>
EXPENDITURES				
Current				
Administration	1,591,449	1,607,949	1,585,702	(22,247)
District Support Services	1,245,258	1,255,930	1,127,479	(128,451)
Elementary and Secondary Regular Instruction	25,357,508	25,693,378	25,605,340	(88,038)
Vocational Education Instruction	1,485,955	1,539,566	1,443,608	(95,958)
Special Education Instruction	9,317,881	9,122,874	8,946,078	(176,796)
Instructional Support Services	2,635,341	2,532,089	2,570,376	38,287
Pupil Support Services	4,726,895	4,740,288	4,569,622	(170,666)
Sites and Buildings	4,685,233	4,803,053	4,411,237	(391,816)
Fiscal and Other Fixed Cost Programs	281,000	281,000	201,271	(79,729)
Capital Outlay				
Administration	10,871	10,871	2,769	(8,102)
District Support Services	8,950	8,950	10,848	1,898
Elementary and Secondary Regular Instruction	216,002	316,687	342,638	25,951
Vocational Education Instruction	6,580	14,080	9,523	(4,557)
Special Education Instruction	76,213	106,421	97,542	(8,879)
Instructional Support Services	317,796	458,214	303,421	(154,793)
Pupil Support Services	1,400	1,400	1,341	(59)
Sites and Buildings	1,250,217	1,252,434	1,025,866	(226,568)
Total Expenditures	<u>53,214,549</u>	<u>53,745,184</u>	<u>52,254,661</u>	<u>(1,490,523)</u>
Excess of Revenues Over Expenditures	164,117	720,354	2,204,854	1,484,500
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	1,500	1,500	89	(1,411)
Proceeds from Capital Leases	250,000	250,000	108,957	(141,043)
Total Other Financing Sources	<u>251,500</u>	<u>251,500</u>	<u>109,046</u>	<u>(142,454)</u>
Net Change in Fund Balances	<u>\$ 415,617</u>	<u>\$ 971,854</u>	2,313,900	<u>\$ 1,342,046</u>
FUND BALANCES				
Beginning of Year			<u>12,059,364</u>	
End of Year			<u>\$ 14,373,264</u>	

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	<u>OPEB Irrevocable Trust Fund</u>
ASSETS	
Investments	
Brokered Money Market	\$ 184,078
Fixed Income	5,971,878
Equities	6,098,327
Mutual Funds	<u>311,306</u>
 Total Assets	 <u><u>\$ 12,565,589</u></u>
 NET ASSETS	
Held in Trust for OPEB	 <u><u>\$ 12,565,589</u></u>

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2012**

	<u>OPEB Irrevocable Trust Fund</u>
ADDITIONS	
Investment Income	
Interest, Dividends, Change in Fair Value	\$ 397,103
Less Investment Expenses	<u>(90,343)</u>
Net Investment Income	<u>306,760</u>
 Change in Net Assets	 306,760
 NET ASSETS	
Beginning of Year	 <u>12,258,829</u>
 End of Year	 <u><u>\$ 12,565,589</u></u>

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INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

Some student activity accounts of the District are under School Board control; therefore, these student activities are included in the General Fund. There are other student activity accounts which are not under School Board control and separate financial statements have been issued for these activities.

A copy of the financial statements of the student activity accounts may be obtained by writing in care of Independent School District No. 877, Buffalo-Hanover-Montrose Schools, 214 First Avenue Northeast, Buffalo, Minnesota 55313.

1. Joint Ventures

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

B. Basic Financial Statement Information

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

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 items not properly included among program revenues are reported instead as general revenues.

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

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements and fiduciary fund 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. 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 as described below and on the following page.

1. Revenue Recognition

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

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

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

Description of Funds:

Major Funds:

General Fund – This Fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety and disabled accessibility projects.

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

Nonmajor Funds:

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

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

Post Employment Debt Service Fund – This Fund is used to account for the accumulation of resources for payments of OPEB bonds, principal and related costs.

Building Construction Capital Project Fund – This Fund is used to account for construction costs.

Fiduciary Fund:

OPEB Irrevocable Trust Fund – This Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described on the following pages.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

1. District Funds Other than OPEB Trust Fund

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

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

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Cash and investments at June 30, 2012 were comprised of shares in the Minnesota School District Liquid Asset Fund (MSDLAF), money market funds, brokered certificates of deposit and U.S. Treasury state and local obligations. The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The District had a formal deposit and investment policy in place as of June 30, 2012 to address the following risks:

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance.

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

1. District Funds Other than OPEB Trust Fund (Continued)

Concentration of Credit Risk: The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states investments shall be held by institutions designated by the School Board.

2. OPEB Trust Fund

These funds represent investments administered by the District's OPEB Trust investment managers. As of June 30, 2012, they were comprised of brokered money markets, government agencies, corporate securities, equities and mutual funds.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorize the OPEB Trust to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

Interest Rate Risk: The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

<u>Asset Class</u>	<u>Percent</u>	<u>Range</u>
Cash Equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

2. OPEB Trust Fund (Continued)

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio.

Concentration of Credit Risk: The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of 10 years.

Custodial Credit Risk: The District's OPEB Trust Investment Policy does not address custodial credit risk.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

H. Prepaid Items

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

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Property Taxes

The District is located in the Counties of Wright and Hennepin.

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

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

J. Capital Assets

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

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

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

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

K. Long-Term Obligations

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. Compensated Absences

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Assets.

Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment.

Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave anticipated to be paid upon employees' retirements is recorded as severance payable in the Statement of Net Assets.

M. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on years of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

Under the terms of certain collectively bargained employment contracts, the District is required to pay the medical and dental insurance premiums for retired teachers and administrators until they reach specific age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

N. Risk Management

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

O. Fund Equity

In the fund financial statements, governmental funds report fund classifications that compromise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. Fund Equity (Continued)

- Restricted Fund Balance – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board.
- Assigned Fund Balance – These are amounts that are constrained by the District’s intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Finance and Operations or the School Board.
- Unassigned Fund Balance – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the unassigned fund balance, the restricted next year’s approved budget deficit fund balance and the nonspendable fund balances.
- The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the School Board shall implement a procedure to stabilize the District’s financial position. This shall involve:
 - A. No new programs will be added at the District level unless matched by a like revenue source;
 - B. Allocations such as textbooks, supplies, etc., shall be frozen; and
 - C. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.
- If the fund balance is projected to decrease below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

P. Net Assets

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

Q. Use of Estimates

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

R. Comparative Data

Comparative total data for the prior year has been presented in total in the fund financial statements and government-wide statements in order to provide an understanding of the changes in financial position and operations of these funds. Certain amounts have been reclassified to conform to the presentation used in the current year.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director of Finance and Operations submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Budget revisions are presented and approved by the School Board in the spring.

Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at a decentralized level.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceed appropriations in the following Fund for the fiscal year ending June 30, 2012.

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Over</u>
Community Service	\$ 3,144,364	\$ 3,222,834	\$ 78,470

NOTE 3 – DEPOSITS AND INVESTMENTS

District Funds Other than OPEB Trust Fund

A. Deposits

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

Custodial Credit Risk – Deposits: As of June 30, 2012, the District's bank balance \$ 2,938,153 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

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

Checking	\$ 484,843
Certificates of Deposit	<u>1,901,000</u>
Total Deposits	<u><u>\$ 2,385,843</u></u>

B. Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>	<u>Credit Rating</u>
Brokered Money Markets	\$ 560	\$ 560	N/A
Brokered Certificates of Deposit	247,900	247,900	N/A
U.S. Treasury State and Local Obligations	34,825,672	34,825,672	N/A
MSDLAF	<u>452,190</u>	<u>452,190</u>	AAAm
Total Investments	<u><u>\$35,526,322</u></u>	<u><u>\$ 35,526,322</u></u>	

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Credit Risk: The District’s investments are rated in the table on the previous page. Also as indicated in the table, there are certain investments that are not subject to credit risk and therefore, not rated.

Concentration of Credit Risk: The District’s investments in U.S. Treasury State and Local Obligations (96.9%) was above 5% of total investments.

OPEB Trust Fund

As of June 30, 2012, the District’s OPEB Trust Fund had the following investments:

Investment Type	Fair Value	Investment Maturities				
		Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	\$ 184,078	N/A	N/A	N/A	N/A	N/A
Fixed Income:						
Government Agencies	2,960,325	\$ -	\$ -	\$ 1,103,286	\$ 1,074,878	\$ 782,161
Corporate Securities	3,322,859	814,562	156,706	436,510	819,009	1,096,072
Equities	3,151,706	N/A	N/A	N/A	N/A	N/A
Mutual Funds	2,946,621	N/A	N/A	N/A	N/A	N/A
Total Investments	<u>\$12,565,589</u>					

Credit Risk: The District’s investments in government agencies and corporate securities were rated Baa2 or greater by Moody’s. The remaining investments are not subject to credit risk and, therefore, not rated. The District’s OPEB Investment Policy states investments must have a rating of Baa3 or greater.

C. Deposits and Investments

The following is a summary of total deposits and investments:

District Governmental Funds:	
Deposits (Note 3.A.)	\$ 2,385,843
Investments (Note 3.B.)	35,526,322
Petty Cash	6,000
OPEB Irrevocable Trust Fund:	
Investments	<u>12,565,589</u>
Total Deposits and Investments	<u>\$ 50,483,754</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments (Continued)

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

Statement of Net Assets:		
Cash and Investments		\$ 3,092,493
Cash with Fiscal Agent		34,825,672
Statement of Fiduciary Net Assets:		
Trust Fund		<u>12,565,589</u>
Total Deposits and Investments		<u><u>\$ 50,483,754</u></u>

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 4,224,158	\$ -	\$ -	\$ 4,224,158
Construction in Progress	<u>391,043</u>	<u>41,394</u>	<u>391,043</u>	<u>41,394</u>
Total Capital Assets not being Depreciated	<u>4,615,201</u>	<u>41,394</u>	<u>391,043</u>	<u>4,265,552</u>
Capital Assets being Depreciated:				
Land Improvements	2,960,182	-	-	2,960,182
Buildings	101,766,156	538,271	-	102,304,427
Equipment and Vehicles	<u>5,134,805</u>	<u>128,865</u>	<u>37,239</u>	<u>5,226,431</u>
Total Capital Assets being Depreciated	<u>109,861,143</u>	<u>667,136</u>	<u>37,239</u>	<u>110,491,040</u>
Less Accumulated Depreciation for:				
Land Improvements	1,866,097	139,487	-	2,005,584
Buildings	34,027,796	3,047,426	-	37,075,222
Equipment and Vehicles	<u>3,311,849</u>	<u>320,225</u>	<u>37,239</u>	<u>3,594,835</u>
Total Accumulated Depreciation	<u>39,205,742</u>	<u>3,507,138</u>	<u>37,239</u>	<u>42,675,641</u>
Total Capital Assets being Depreciated, Net	<u>70,655,401</u>	<u>(2,840,002)</u>	<u>-</u>	<u>67,815,399</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 75,270,602</u></u>	<u><u>\$ (2,798,608)</u></u>	<u><u>\$ 391,043</u></u>	<u><u>\$ 72,080,951</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4 – CAPITAL ASSETS

Depreciation expense of \$ 3,507,138 for the fiscal year ended June 30, 2012 was charged to the following governmental functions:

District Support Services	\$ 4,504
Elementary and Secondary Regular Instruction	3,307,326
Special Education Instruction	10,003
Instructional Support Services	82,337
Pupil Support	525
Sites and Buildings	51,670
Food Service	43,368
Community Service	7,405
	<hr/>
Total Depreciation Expense	<u><u>\$ 3,507,138</u></u>

NOTE 5 – INTERFUND ACTIVITY

A. Due to/Due from Other Funds

As of June 30, 2012, the following amounts were due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	General Fund	\$ 1,645,495
Debt Service	Other Nonmajor Funds	<u>21,256</u>
Total		<u><u>\$ 1,666,751</u></u>

These balances are to cover cash deficits and will be repaid as resources become available.

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One year</u>
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
2003B School Building Bonds	11/01/03	2.00%-4.60%	\$42,400,000	02/01/24	\$ 32,060,000	\$32,060,000
2005A Alternative Facilities Bonds	12/01/05	3.75%-3.80%	9,100,000	02/01/18	4,535,000	4,535,000
2008 School Building Refunding Bonds	12/17/08	4.00%-5.125%	20,340,000	02/01/22	15,690,000	1,705,000
2009A OPEB Bonds	09/15/09	2.00%-4.90%	10,845,000	02/01/23	10,730,000	-
2012A G.O. Refunding Bonds	03/16/12	2.00%-4.00%	31,215,000	02/01/24	31,215,000	-
Total G.O. Bonds					<u>94,230,000</u>	<u>38,300,000</u>
Unamortized Bond Premium					4,202,380	-
Net Bonds Payable					<u>98,432,380</u>	<u>38,300,000</u>
Capital Leases Payable					2,178,002	176,447
Severance Payable					1,115,241	19,885
Compensated Absences Payable					<u>338,804</u>	<u>338,804</u>
 Total all Long-Term Liabilities					<u><u>\$102,064,427</u></u>	<u><u>\$38,835,136</u></u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and cover annual OPEB costs and net OPEB obligations. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond liabilities:

<u>Year Ending June 30,</u>	<u>G.O. Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 38,300,000	\$ 3,743,909	\$ 42,043,909
2014	4,460,000	2,209,888	6,669,888
2015	4,575,000	2,085,287	6,660,287
2016	4,705,000	1,933,438	6,638,438
2017	4,725,000	1,776,987	6,501,987
2018-2022	26,945,000	5,896,614	32,841,614
2023-2024	<u>10,520,000</u>	<u>1,309,791</u>	<u>11,829,791</u>
 Total	<u><u>\$ 94,230,000</u></u>	<u><u>\$ 18,955,914</u></u>	<u><u>\$ 113,185,914</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – LONG-TERM DEBT

C. Capital Lease Obligations

In March 2004, the District entered into a lease purchase agreement for the construction of a warehouse/storage building. The total financed was \$ 122,850 with an interest rate of 3.89% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through January 15, 2012.

In October 2006, the District entered into a lease purchase agreement for the installation of a new district-wide telephone system. The total financed was \$ 445,000 with an interest rate of 4.26% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 17, 2011.

In October 2006, the District entered into a lease purchase agreement for the construction of an addition to the Phoenix Learning Center. The total financed was \$ 750,000 with an interest rate of 4.79% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 15, 2021.

In April 2010, the District entered into a lease purchase agreement for the remodel of the Montrose Early Childhood Building. The total financed was \$ 1,324,474 with an interest rate of 5.55% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through May 1, 2025.

In March 2011, the District entered into a lease purchase agreement for the construction of tennis courts. The total financed was \$ 500,000 with an interest rate of 4.25% and is to be paid through the General Fund. The lease requires the District to make semiannual payments through April 1, 2018.

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

Year Ending June 30,	
2013	\$ 285,695
2014	285,695
2015	285,696
2016	285,695
2017	285,696
2018-2022	1,058,801
2023-2026	394,271
Total Minimum Lease Payments	<u>2,881,549</u>
Less Amount Representing Interest	<u>(703,547)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 2,178,002</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 – LONG-TERM DEBT

C. Capital Lease Obligations (Continued)

The carrying value and related accumulated depreciation at June 30, 2012 for the assets purchased was as follows:

Carrying Value	\$ 3,176,847
Less Accumulated Depreciation	<u>(615,611)</u>
Assets, Net of Depreciation	<u>\$ 2,561,236</u>

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	\$ 67,230,000	\$ 31,215,000	\$ 4,215,000	\$ 94,230,000
Net Premium	401,177	3,847,089	45,886	4,202,380
Capital Leases Payable	2,294,044	108,957	224,999	2,178,002
Severance Payable	1,141,704	62,644	89,107	1,115,241
Compensated Absences Payable	<u>341,469</u>	<u>493,491</u>	<u>496,156</u>	<u>338,804</u>
Total Long-Term Liabilities	<u>\$ 71,408,394</u>	<u>\$ 35,727,181</u>	<u>\$ 5,071,148</u>	<u>\$ 102,064,427</u>

NOTE 7 – FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

Fund Equity

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Nonspendable for:				
Inventory	\$ 77,819	\$ -	\$ 74,745	\$ 152,564
Prepaid Items	<u>339,273</u>	<u>-</u>	<u>3,982</u>	<u>343,255</u>
Total Nonspendable	417,092	-	78,727	495,819
Restricted/Reserved for:				
Health and Safety	(112,811)	-	-	(112,811)
Operating Capital	111,840	-	-	111,840
Staff Development	74,801	-	-	74,801
Deferred Maintenance	981	-	-	981
Community Education	-	-	212,281	212,281
Adult Basic Education	-	-	12,382	12,382
Early Childhood and Family Education	-	-	78,951	78,951
School Readiness	-	-	32,303	32,303
Community Service	-	-	9,981	9,981
Bond Refunding	-	34,825,672	-	34,825,672
Debt Service	<u>-</u>	<u>1,392,883</u>	<u>53,741</u>	<u>1,446,624</u>
Total Restricted/Reserved	74,811	36,218,555	399,639	36,693,005
Committed for:				
Separation Benefits	4,118,869	-	-	4,118,869
Assigned for:				
Carryover	171,929	-	-	171,929
Dental Insurance	247,330	-	-	247,330
Capital	1,000,000	-	-	1,000,000
Third Party Special Education	422,029	-	-	422,029
Stimulus	66,543	-	-	66,543
Student Activities	<u>134,880</u>	<u>-</u>	<u>-</u>	<u>134,880</u>
Total Assigned	2,042,711	-	-	2,042,711
Unassigned	<u>7,719,781</u>	<u>-</u>	<u>(51,337)</u>	<u>7,668,444</u>
Total Fund Balance	<u>\$ 14,373,264</u>	<u>\$ 36,218,555</u>	<u>\$ 427,029</u>	<u>\$ 51,018,848</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

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

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

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

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

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted for Community Service – This balance represents the remaining aggregate resources for community service programs after other restrictions are removed.

Restricted for Bond Refunding – This balance represents the resources set aside from the proceeds of refunded obligations that have not met the criteria of defeasance. These resources will be used to payoff future bonded obligations.

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

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits including compensated absences, pensions, OPEB and termination benefits.

Assigned for Carryover – This balance represents unspent budget appropriations carried over for the subsequent year.

Assigned for Dental Insurance – This balance represents the resources set aside for payment of dental insurance costs.

Assigned for Capital – This balance represents the resources set aside for capital purchases.

Assigned for Third Party Special Education – This balance represents the resources set aside for third party billing purchases.

Assigned for Stimulus – This balance represents the resources set aside for stimulus positions.

Assigned for Student Activities – This balance represents the accumulation of the student activity accounts that are under School Board control.

B. Net Assets

Net assets restricted for other purposes on the Statement of Net Assets are comprised of the total positive restricted fund balances of the General, Food Service and Community Service Funds.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these Plans follow.

Teachers' Retirement Association

A. Plan Description

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

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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 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 and on the following page.

Tier I:

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

With these provisions:

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

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Tier II:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.5% per year.

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

B. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary during fiscal year 2011 as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members during fiscal year 2011. Total covered payroll salaries for all TRA members state-wide during the fiscal year ended June 30, 2011 was approximately \$ 3.84 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2010 and 2009 were \$ 3.79 billion and \$ 3.76 billion, respectively. The District's contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were \$ 1,416,154, \$ 1,266,922 and \$ 1,232,254, respectively, equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Funding Policy (Continued)

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

Public Employees' Retirement Association

A. Plan Description

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the fiscal years ended June 30, 2012, 2011 and 2010 were \$ 579,169, \$ 579,097 and \$ 548,883, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 – RETIREMENT PLANS

A. Post Retirement Health Care Savings Plan

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled \$ 44,745 for the fiscal year.

B. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District makes matching contribution for some administrative employees of \$ 37,981. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$ 703,291.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a “cafeteria plan” under Section 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 groups allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pretax dollars to be contributed to the plan during the year. 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.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the financial statements 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 general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that are placed directly in a medical savings account upon retirement. Medical coverage is administered by BlueCross BlueShield. It is the District’s policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2012, the District contributed \$ 1,086,027 to the plan. As of June 30, 2012, the District decided to pay retiree benefits on a pay-as-you-go basis rather than draw from the OPEB plan. Administrative costs of the plan are financed through investment earnings.

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

B. Funding Policy (Continued)

As of June 30, 2012, there were 59 retirees and beneficiaries receiving health benefits from the District's health plan. The plan has a total of 705 active participants and dependents. Of that total, 549 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 397,197
Interest on Net OPEB Obligation	(365,949)
Adjustment to ARC	529,072
Annual OPEB Cost (Expense)	<u>560,320</u>
Contributions Made	<u>(1,086,027)</u>
Increase in Net OPEB Obligation	(525,707)
Net OPEB Obligation - Beginning of Year	<u>(9,148,726)</u>
Net OPEB Obligation - End of Year	<u><u>\$ (9,674,433)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/10	\$ 1,253,420	\$ 11,379,957	908%	\$ (9,429,365)
06/30/11	1,092,586	811,947	74%	(9,148,726)
06/30/12	560,320	1,086,027	194%	(9,674,433)

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the District had \$ 10,593,203 of assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 13,803,801 and the actuarial value of assets was \$ 10,593,203, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,210,598. The covered payroll (annual payroll of active employees covered by the plan) was \$ 28,590,040 and the ratio of the UAAL to the covered payroll was 11.23%. In September 2009, the District issued G.O. Taxable OPEB Bonds, established an irrevocable trust and contributed \$ 10,690,300 of bond proceeds into the trust to fund the plan. As of June 30, 2012, the ending market value of these assets was \$ 12,565,589.

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

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At the July 1, 2008 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter-term, based on District's general assets). The District currently plans to fund the liability. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 9% initially, reduced incrementally to an ultimate rate of 5% after 8 years. Both rates included a 4% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2010 was 30 years.

The financial statements for the OPEB Plan are reported below because the OPEB Plan does not issue a separate financial report.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

E. Condensed Financial Statements

STATEMENT OF PLAN NET ASSETS

June 30, 2012

ASSETS:	
Investments, at Fair Value	<u>\$ 12,565,589</u>
NET ASSETS:	
Net Assets Held in Trust for OPEB	<u>\$ 12,565,589</u>

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2012

ADDITIONS:	
Investment Income:	
Interest and Dividends	\$ 397,103
Less Investment Expenses	<u>(90,343)</u>
Net Investment Income	<u>306,760</u>
Change in Net Assets	306,760
NET ASSETS HELD IN TRUST FOR OPEB:	
Beginning of the Year	<u>12,258,829</u>
End of the Year	<u>\$ 12,565,589</u>

1. Notes to the Condensed Financial Statements

a. Plan Provisions

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements shown on the previous page were prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

INDEPENDENT SCHOOL DISTRICT NO. 877

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN

E. Condensed Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

b. Investments

The details of the investments and the investment policy are described in Note 1.D.2. of the District's Notes to the Financial Statements.

c. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

NOTE 12 – COMMITMENTS

A. Joint Powers Agreement

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

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

B. Rental Agreement

The District entered into a rental agreement with the City of Buffalo, Minnesota (the "City") in fiscal year 2001 for use of the Civic Center by the District.

This agreement is for a period of 15 years commencing September 1, 2000. The agreement calls for a minimum rental of 335 hours of ice time per year at the initial rate of \$ 135 per hour and an annual payment of \$ 55,000 for use of classrooms, team and locker rooms and additional ice time during the day when school is in session.

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are \$ 100,225. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

INDEPENDENT SCHOOL DISTRICT NO. 877
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – COMMITMENTS

C. Construction Commitments

As of June 30, 2012, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2012	Commitment
MEEC	\$ 55,575	\$ 41,394	\$ 14,181

NOTE 13 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 3, 2012, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 877

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
For the Fiscal Year Ended June 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/08	\$ -	\$ 10,694,069	\$ 10,694,069	0.0%	\$ 28,429,448	37.6%
07/01/10	10,593,203	13,803,801	3,210,598	76.7%	28,590,040	11.2%

This Schedule was implemented in 2009 and, therefore, contains two years of data. See Note 11 in the Notes to the Financial Statements for more details on this schedule.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OTHER POST EMPLOYMENT BENEFITS

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Total Contributions</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2010	\$ 1,253,420	\$ 11,379,957	908%	\$ (9,429,365)
2011	1,092,586	811,947	74%	(9,148,726)
2012	560,320	1,086,027	194%	(9,674,433)

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Property Taxes	\$ 5,644,642	\$ 7,782,203	\$ 5,722,356	\$ (2,059,847)
Other Local and County Revenues	1,928,817	2,341,095	2,394,891	53,796
Revenue from State Sources	42,996,736	41,386,464	43,450,184	2,063,720
Revenue from Federal Sources	2,767,671	2,919,276	2,831,837	(87,439)
Sales and Other Conversion of Assets	40,800	36,500	60,247	23,747
Total Revenues	53,378,666	54,465,538	54,459,515	(6,023)
EXPENDITURES				
Administration				
Salaries	1,056,520	1,051,090	1,049,130	(1,960)
Employee Benefits	440,170	462,100	460,296	(1,804)
Purchased Services	34,759	34,759	19,946	(14,813)
Supplies and Materials	13,050	13,050	14,362	1,312
Capital Expenditures	10,871	10,871	2,769	(8,102)
Other Expenditures	46,950	46,950	41,968	(4,982)
Total Administration	1,602,320	1,618,820	1,588,471	(30,349)
District Support Services				
Salaries	657,038	655,810	655,378	(432)
Employee Benefits	259,270	261,170	255,779	(5,391)
Purchased Services	296,500	306,500	192,747	(113,753)
Supplies and Materials	11,950	11,950	4,158	(7,792)
Capital Expenditures	8,950	8,950	10,848	1,898
Other Expenditures	20,500	20,500	19,417	(1,083)
Total District Support Services	1,254,208	1,264,880	1,138,327	(126,553)
Elementary and Secondary				
Regular Instruction				
Salaries	16,925,082	16,965,693	16,930,948	(34,745)
Employee Benefits	6,222,644	6,415,692	6,201,414	(214,278)
Purchased Services	1,059,271	1,159,458	1,274,097	114,639
Supplies and Materials	1,063,286	1,056,052	1,112,713	56,661
Capital Expenditures	216,002	316,687	342,638	25,951
Other Expenditures	87,225	96,483	86,168	(10,315)
Total Elementary and Secondary Regular Instruction	25,573,510	26,010,065	25,947,978	(62,087)

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Vocational Education Instruction				
Salaries	\$ 698,140	\$ 736,980	\$ 704,717	\$ (32,263)
Employee Benefits	215,180	231,700	227,092	(4,608)
Purchased Services	540,595	540,595	486,084	(54,511)
Supplies and Materials	31,540	29,791	24,211	(5,580)
Capital Expenditures	6,580	14,080	9,523	(4,557)
Other Expenditures	500	500	1,504	1,004
Total Vocational Education Instruction	1,492,535	1,553,646	1,453,131	(100,515)
Special Education Instruction				
Salaries	6,583,177	6,365,012	6,285,840	(79,172)
Employee Benefits	2,137,522	2,107,685	2,049,365	(58,320)
Purchased Services	479,297	534,365	541,928	7,563
Supplies and Materials	117,885	115,812	67,150	(48,662)
Capital Expenditures	76,213	106,421	97,542	(8,879)
Other Expenditures	-	-	1,795	1,795
Total Special Education Instruction	9,394,094	9,229,295	9,043,620	(185,675)
Instructional Support Services				
Salaries	1,674,436	1,522,711	1,518,138	(4,573)
Employee Benefits	417,338	382,240	388,490	6,250
Purchased Services	118,414	118,414	93,826	(24,588)
Supplies and Materials	274,733	368,313	360,800	(7,513)
Capital Expenditures	317,796	458,214	303,421	(154,793)
Other Expenditures	150,420	140,411	209,122	68,711
Total Instructional Support Services	2,953,137	2,990,303	2,873,797	(116,506)
Pupil Support Services				
Salaries	822,810	815,135	819,588	4,453
Employee Benefits	268,570	282,940	281,892	(1,048)
Purchased Services	3,433,125	3,440,225	3,265,521	(174,704)
Supplies and Materials	201,390	200,988	201,766	778
Capital Expenditures	1,400	1,400	1,341	(59)
Other Expenditures	1,000	1,000	855	(145)
Total Pupil Support Services	4,728,295	4,741,688	4,570,963	(170,725)

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Sites and Buildings				
Salaries	\$ 1,795,090	\$ 1,826,080	\$ 1,754,511	\$ (71,569)
Employee Benefits	546,810	552,160	529,056	(23,104)
Purchased Services	1,674,583	1,753,263	1,585,534	(167,729)
Supplies and Materials	613,650	615,650	483,580	(132,070)
Capital Expenditures	1,250,217	1,252,434	1,025,866	(226,568)
Other Expenditures	55,100	55,900	58,556	2,656
Total Sites and Buildings	<u>5,935,450</u>	<u>6,055,487</u>	<u>5,437,103</u>	<u>(618,384)</u>
Fiscal and Other Fixed Cost Programs				
Purchased Services	151,000	151,000	201,271	50,271
Other Expenditures	<u>130,000</u>	<u>130,000</u>	<u>-</u>	<u>(130,000)</u>
Total Fiscal and Other Fixed Cost Programs	<u>281,000</u>	<u>281,000</u>	<u>201,271</u>	<u>(79,729)</u>
Total Expenditures	<u>53,214,549</u>	<u>53,745,184</u>	<u>52,254,661</u>	<u>(1,490,523)</u>
Excess of Revenues Over Expenditures	164,117	720,354	2,204,854	1,484,500
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	1,500	1,500	89	(1,411)
Proceeds from Capital Leases	<u>250,000</u>	<u>250,000</u>	<u>108,957</u>	<u>(141,043)</u>
Total Other Financing Sources	<u>251,500</u>	<u>251,500</u>	<u>109,046</u>	<u>(142,454)</u>
Net Change in Fund Balances	<u>\$ 415,617</u>	<u>\$ 971,854</u>	2,313,900	<u>\$ 1,342,046</u>
FUND BALANCES				
Beginning of Year			<u>12,059,364</u>	
End of Year			<u>\$ 14,373,264</u>	

INDEPENDENT SCHOOL DISTRICT NO. 877

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	Special Revenue			Debt Service	Capital Project Fund	Total Nonmajor Funds	
	Food Service	Community	Total	Post	Building Construction	2012	2011
		Service		Employment Benefits Debt Service Fund			
ASSETS							
Cash and Investments	\$ -	\$ 176,429	\$ 176,429	\$ 280,622	\$ -	\$ 457,051	\$ 484,398
Current Property Taxes Receivable	-	304,125	304,125	281,167	-	585,292	628,292
Delinquent Property Taxes Receivable	-	12,372	12,372	9,321	-	21,693	29,837
Accounts Receivable	-	7,033	7,033	-	-	7,033	-
Due from Department of Education	-	157,617	157,617	10,640	-	168,257	152,587
Due from Other Minnesota School Districts	-	42,806	42,806	-	-	42,806	44,342
Due from Other Governmental Units	-	-	-	-	-	-	39,850
Inventory	74,745	-	74,745	-	-	74,745	83,094
Prepaid Items	-	-	-	-	3,982	3,982	-
Advance of Unearned General Education Aid	-	14,325	14,325	-	-	14,325	27,674
Total Assets	\$ 74,745	\$ 714,707	\$ 789,452	\$ 581,750	\$ 3,982	\$ 1,375,184	\$ 1,490,074
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ 11,109	\$ 32,052	\$ 43,161	\$ -	\$ -	\$ 43,161	\$ 65,101
Salaries and Benefits Payable	(56,069)	1,049	(55,020)	-	-	(55,020)	(1,904)
Due to Other Minnesota Districts	-	-	-	-	-	-	2,280
Due to Other Governmental Units	-	144	144	-	-	144	4,094
Due to Other Funds	17,274	-	17,274	-	3,982	21,256	-
Deferred Revenue	75,041	32,904	107,945	9,321	-	117,266	101,955
Property Taxes Levied for Subsequent Year's Expenditures	-	302,660	302,660	518,688	-	821,348	849,836
Severance Payable	-	-	-	-	-	-	17,199
Total Liabilities	47,355	368,809	416,164	528,009	3,982	948,155	1,038,561
Fund Balances							
Nonspendable	74,745	-	74,745	-	3,982	78,727	83,094
Restricted	-	345,898	345,898	53,741	-	399,639	368,419
Unassigned	(47,355)	-	(47,355)	-	(3,982)	(51,337)	-
Total Fund Balances	27,390	345,898	373,288	53,741	-	427,029	451,513
Total Liabilities and Fund Balances	\$ 74,745	\$ 714,707	\$ 789,452	\$ 581,750	\$ 3,982	\$ 1,375,184	\$ 1,490,074

INDEPENDENT SCHOOL DISTRICT NO. 877

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)**

	Special Revenue			Debt Service	Total Nonmajor Funds	
	Food Service	Community Service	Total	Post Employment	2012	2011
REVENUES						
Local Property Taxes	\$ -	\$ 572,248	\$ 572,248	\$ 491,314	\$ 1,063,562	\$ 1,569,874
Other Local and County Revenues	5,337	2,234,388	2,239,725	97	2,239,822	2,009,363
Revenue from State Sources	121,176	473,696	594,872	29,802	624,674	370,179
Revenue from Federal Sources	1,035,178	-	1,035,178	-	1,035,178	1,023,676
Sales and Other Conversion of Assets	1,722,750	-	1,722,750	-	1,722,750	1,710,573
Total Revenues	<u>2,884,441</u>	<u>3,280,332</u>	<u>6,164,773</u>	<u>521,213</u>	<u>6,685,986</u>	<u>6,683,665</u>
EXPENDITURES						
Current						
Food Service	2,933,905	-	2,933,905	-	2,933,905	2,825,861
Community Education and Services	-	3,200,879	3,200,879	-	3,200,879	2,959,658
Capital Outlay						
Food Service	59,293	-	59,293	-	59,293	-
Community Education and Services	-	21,955	21,955	-	21,955	28,378
Debt Service						
Principal	-	-	-	-	-	115,000
Interest and Fiscal Charges	-	-	-	494,438	494,438	683,774
Total Expenditures	<u>2,993,198</u>	<u>3,222,834</u>	<u>6,216,032</u>	<u>494,438</u>	<u>6,710,470</u>	<u>6,612,671</u>
Excess of Revenues Over (Under) Expenditures	(108,757)	57,498	(51,259)	26,775	(24,484)	70,994
FUND BALANCES						
Beginning of Year	<u>136,147</u>	<u>288,400</u>	<u>424,547</u>	<u>26,966</u>	<u>451,513</u>	<u>380,519</u>
End of Year	<u>\$ 27,390</u>	<u>\$ 345,898</u>	<u>\$ 373,288</u>	<u>\$ 53,741</u>	<u>\$ 427,029</u>	<u>\$ 451,513</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other Local and County Revenues	\$ 3,000	\$ 3,000	\$ 5,337	\$ 2,337
Revenue from State Sources	121,800	121,800	121,176	(624)
Revenue from Federal Sources	958,050	958,050	1,035,178	77,128
Sales and Other Conversion of Assets	<u>1,946,300</u>	<u>1,946,300</u>	<u>1,722,750</u>	<u>(223,550)</u>
Total Revenues	3,029,150	3,029,150	2,884,441	(144,709)
EXPENDITURES				
Food Service				
Salaries	1,082,000	1,073,500	1,074,401	901
Employee Benefits	351,300	351,300	446,492	95,192
Purchased Services	164,950	167,150	153,555	(13,595)
Supplies and Materials	1,339,100	1,331,100	1,251,341	(79,759)
Capital Expenditures	67,000	81,300	59,293	(22,007)
Other Expenditures	<u>11,400</u>	<u>11,400</u>	<u>8,116</u>	<u>(3,284)</u>
Total Expenditures	<u>3,015,750</u>	<u>3,015,750</u>	<u>2,993,198</u>	<u>(22,552)</u>
Net Change in Fund Balances	<u>\$ 13,400</u>	<u>\$ 13,400</u>	(108,757)	<u>\$ (122,157)</u>
FUND BALANCES				
Beginning of Year			<u>136,147</u>	
End of Year			<u>\$ 27,390</u>	

INDEPENDENT SCHOOL DISTRICT NO. 877

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Local Property Taxes	\$ 535,012	\$ 820,012	\$ 572,248	\$ (247,764)
Other Local and County Revenues	2,167,161	2,167,161	2,234,388	67,227
Revenue from State Sources	453,409	168,409	473,696	305,287
Total Revenues	<u>3,155,582</u>	<u>3,155,582</u>	<u>3,280,332</u>	<u>124,750</u>
EXPENDITURES				
Community Education and Services				
Salaries	2,081,912	2,081,912	2,067,783	(14,129)
Employee Benefits	520,502	520,502	560,129	39,627
Purchased Services	284,125	284,125	356,739	72,614
Supplies and Materials	224,700	224,700	209,187	(15,513)
Capital Expenditures	23,000	23,000	21,955	(1,045)
Other Expenditures	10,125	10,125	7,041	(3,084)
Total Expenditures	<u>3,144,364</u>	<u>3,144,364</u>	<u>3,222,834</u>	<u>78,470</u>
Net Change in Fund Balances	<u>\$ 11,218</u>	<u>\$ 11,218</u>	57,498	<u>\$ 46,280</u>
FUND BALANCES				
Beginning of Year			<u>288,400</u>	
End of Year			<u>\$ 345,898</u>	

INDEPENDENT SCHOOL DISTRICT NO. 877

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	\$ 114,175
Commodities Program - Cash	10.555	36,347
School Breakfast	10.553	152,837
Type A Lunch	10.555	729,375
Special Milk	10.556	2,444
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>1,035,178</u>
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A Cluster:		
Title I, Part A	84.010	401,673
Title II, Part A - Improving Teacher Quality	84.367	95,309
Title III, Part A - Language Enhancement	84.365	12,128
Education Jobs	84.410	1,101,738
Special Education Cluster:		
Special Education	84.027	949,918
Special Education Discretionary	84.027	5,464
Coordinated Early Intervening Services	84.027	87,257
ARRA Special Education	84.391	28,648
Handicapped Early Education	84.173	50,282
Discretionary Professional Development	84.173	1,620
Through Wright County Interagency Early Intervention Committee:		
ARRA Handicapped Early Education	84.392	1,668
Total Special Education Cluster		<u>1,124,857</u>
Special Education - Infants and Toddlers Cluster:		
Special Education - Infants and Toddlers	84.181	26,712
Total Department of Education		<u>2,762,417</u>
Total Federal Expenditures		<u>\$ 3,797,595</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of 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 basic financial statements.

NOTE 2 – INVENTORY

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

OTHER DISTRICT INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 877

**DEFERRED TAX LEVIES
(UNAUDITED)**

<u>Calendar Year Levied</u>	<u>Collected</u>	<u>School Building Refunding Bonds of 1999</u>	<u>School Building Bonds of 2003</u>	<u>Alternative Facilities Bonds of 2005</u>	<u>Taxable OPEB Bonds of 2009</u>	<u>G.O. Refunding Bonds of 2012A</u>	<u>Total</u>
2012	2013	\$ 2,522,940	\$ 3,577,300	\$ 902,777	\$ 518,687	\$ 190,470	\$ 7,712,174
2013	2014	2,123,100	3,963,400	900,874	518,687	204,173	7,710,234
2014	2015	2,135,280	3,928,800	903,236	518,687	222,653	7,708,656
2015	2016	2,134,020	3,016,800	904,418	1,290,437	366,503	7,712,178
2016	2017	2,135,490	3,024,200	899,168	1,290,681	358,943	7,708,482
2017	2018	2,125,541	3,018,400	-	2,207,194	293,633	7,644,768
2018	2019	2,108,741	3,024,100	-	2,224,541	287,805	7,645,187
2019	2020	2,112,167	3,014,400	-	2,240,206	275,728	7,642,501
2020	2021	645,731	4,475,400	-	2,258,912	265,808	7,645,851
2021	2022	-	5,199,500	-	2,186,378	266,295	7,652,173
2022	2023	-	5,206,000	-	-	2,438,783	7,644,783
		<u>\$ 18,043,010</u>	<u>\$ 41,448,300</u>	<u>\$ 4,510,473</u>	<u>\$ 15,254,410</u>	<u>\$ 5,170,794</u>	<u>\$ 84,426,987</u>

INDEPENDENT SCHOOL DISTRICT NO. 877

**PROPERTY TAX LEVIES, RATES AND VALUATIONS
LAST 10 FISCAL YEARS
(Unaudited)**

<u>Year Collectible</u>	<u>Net Tax Capacity Valuations</u>	<u>Tax Capacity Rates</u>	<u>General Fund</u>	<u>Community Service Fund</u>	<u>Debt Service Fund</u>	<u>OPEB Debt Service Fund</u>	<u>Total All Funds</u>
2003	\$ 16,598,813	0.36712	\$ 4,463,834	\$ 355,316	\$ 3,124,260	\$ -	\$ 7,943,410
2004	19,241,942	0.40045	3,999,310	433,864	5,133,398	-	9,566,572
2005	21,885,088	0.33232	4,786,185	394,396	4,189,234	-	9,369,815
2006	27,038,385	0.27768	2,908,810	446,569	6,847,702	-	10,203,081
2007	31,211,062	0.31663	5,024,291	469,777	7,578,738	-	13,072,806
2008	33,777,333	0.28308	5,548,494	468,565	7,072,607	-	13,089,666
2009	34,865,502	0.26180	5,680,660	565,908	6,650,262	-	12,896,830
2010	32,763,398	0.28085	5,673,327	564,269	6,035,737	838,712	13,112,045
2011	30,210,896	0.31952	5,580,632	590,417	6,664,340	518,688	13,354,077
2012	27,627,448	0.35165	5,407,118	560,963	6,650,801	518,688	13,137,570

Source: School Tax Report

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

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the fiscal year ending June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



COMPLIANCE AND OTHER MATTERS

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

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

Kern DeWenter, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 3, 2012



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

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

COMPLIANCE

We have audited the compliance of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012. 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 in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Kern, Dewenter, Viere Ltd

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 3, 2012

INDEPENDENT SCHOOL DISTRICT NO. 877

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

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

Federal Awards

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

Identification of Major Programs

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

INDEPENDENT SCHOOL DISTRICT NO. 877
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



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REPORT ON LEGAL COMPLIANCE

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 3, 2012.

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

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

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

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
October 3, 2012

INDEPENDENT SCHOOL DISTRICT NO. 877

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE

For the Fiscal Year Ended June 30, 2012

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 54,459,515	\$ 54,459,512	\$ 3	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	52,254,661	52,254,658	3	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	417,092	417,092	-	460 Nonspendable Fund Balance	3,982	3,983	(1)
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	74,801	74,801	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	981	981	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(112,811)	(112,811)	-	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	(3,982)	(3,983)	1
417 Taconite Building Maintenance	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	111,840	111,840	-	Total Revenue	\$ 6,697,015	\$ 6,697,016	\$ (1)
426 \$ 25 Taconite	-	-	-	Total Expenditures	6,937,601	6,937,603	(2)
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Arca Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	34,825,672	34,825,672	-
436 State Approved Alternative Program	-	-	-	451 QZAB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	1,392,883	1,392,883	-
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Prekindergarten	-	-	-	08 TRUST FUND			
451 QZAB Payments	-	-	-	Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Net Assets	-	-	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	4,118,869	4,118,869	-	Total Revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	2,042,711	2,042,711	-	422 Net Assets	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance	7,719,781	7,719,783	(2)	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ -	\$ -	\$ -
02 FOOD SERVICES FUND				Total Expenditures	-	-	-
Total Revenue	\$ 2,884,441	\$ 2,884,441	\$ -	<i>Unassigned:</i>			
Total Expenditures	2,993,198	2,993,198	-	422 Net Assets	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	74,745	74,745	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenue	\$ 306,760	\$ 306,759	\$ 1
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	-	-	-	422 Net Assets	12,565,589	12,565,588	1
<i>Unassigned:</i>							
463 Unassigned Fund Balance	(47,355)	(47,357)	2	47 OPEB DEBT SERVICE			
				Total Revenue	\$ 521,213	\$ 521,213	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	494,438	494,438	-
Total Revenue	\$ 3,280,332	\$ 3,280,334	\$ (2)	<i>Nonspendable:</i>			
Total Expenditures	3,222,834	3,222,841	(7)	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	-	-	-	464 Restricted Fund Balance	53,741	53,741	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	212,281	212,281	-				
432 ECFE	78,951	78,951	-				
444 School Readiness	32,303	32,303	-				
447 Adult Basic Education	12,382	12,382	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	9,981	9,980	1				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

