

**INDEPENDENT AUDITOR'S REPORT**

**INDEPENDENT SCHOOL DISTRICT NO. 403  
IVANHOE, MINNESOTA 56142**

**FOR THE YEAR ENDING JUNE 30, 2012**

**Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants  
P.O. Box 707  
Pipestone, Minnesota 56164**

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**BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL**  
**JUNE 30, 2012**

**BOARD OF EDUCATION**

Steve Citterman	Chairperson
Gene Panka	Vice-Chairperson
Marty Rost	Treasurer
Matt Lundrus	Clerk
Beth Otto	Director
Archie Citterman	Director

**ADMINISTRATIVE PERSONNEL**

Michelle Mortensen	High School Principal & Superintendent
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

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Daryl J. Kanthak, CPA

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Amanda K. Baarson Sandy, CPA  
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Marjorie R. Winter, CPA  
Sally Helgeson, CPA  
Michael K. Dubbelde, PA

**INDEPENDENT AUDITOR'S REPORT**

To The Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota, as of and for the 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 financial statements for the year ended June 30, 2011, and in our report dated December 5, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the Independent School District No. 403, Ivanhoe, Minnesota as of June 30, 2012, and the respective changes in financial position, and the respective budgetary comparison for General Fund and the Major Special Revenue Funds, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior-year comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2011, from which it was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 combining and individual fund statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund statements 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 additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Meulebroeck, Taubert Co., PLLP  
Certified Public Accountants  
November 8, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2012**

This section of the Independent School District No. 403's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 -- *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is presented in the MD&A.

**Financial Highlights**

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

- Net assets decreased by \$371,400, or 31.0% over June 30, 2011.
- Fund Balance decreased by \$201,181, or 33.5% over June 30, 2011.
- Total expenditures increased by \$335,339 or 11.7% in comparison to fiscal year 2011, while revenues increased by \$6,411 or .2% in comparison to fiscal year 2011.

**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 management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

**District-Wide Statements**

The District-wide statements (statement of net assets and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net 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. Net assets -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

**Fund Financial Statements**

The fund financial statements include more detailed information about a District's individual funds. The District maintains the following funds:

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

**Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

**Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds (District-Wide Statements)**

As noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 403, assets exceeded liabilities by \$826,606 at the close of the most recent fiscal year. This was an decrease of \$371,400 or 31.0% from the previous year total of \$1,198,086.

Table 1 is a summarized view of the District's Statement of Net Assets.

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current and other assets	1,775,823	2,350,161
Capital assets, net of depreciation	<u>9,724,291</u>	<u>10,232,925</u>
<b>Total Assets</b>	<b><u>11,500,114</u></b>	<b><u>12,583,086</u></b>
<u>Liabilities</u>		
Current and other liabilities	1,649,068	2,055,970
Long-term liabilities	<u>9,024,440</u>	<u>9,329,110</u>
<b>Total Liabilities</b>	<b>10,673,508</b>	<b>11,385,080</b>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	518,985	762,925
Restricted	251,154	378,593
Unrestricted	<u>56,467</u>	<u>56,488</u>
<b>Net Assets</b>	<b><u>826,606</u></b>	<b><u>1,198,006</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>11,500,114</u></b>	<b><u>12,583,086</u></b>

The District's financial position is the product of numerous factors. Therefore, it is important to view the net assets balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net assets of the District.

**Table 2**  
**Change in Net Assets**  
**For the year ended June 30, 2012**

	<u>2012</u>	<u>2011</u>
<b><u>Revenues</u></b>		
Program Revenues		
Charges for Services	128,659	370,392
Operating Grants and Contributions	245,294	149,415
General Revenues		
Property Taxes	960,077	960,077
Unrestricted Federal and State Aid	1,588,798	1,338,639
Other	<u>80,954</u>	<u>41,190</u>
<b>Total revenues</b>	<b>3,003,782</b>	<b>2,998,251</b>
<b><u>Expenses</u></b>		
District and School Administration	200,758	140,390
District Support Services	59,338	35,047
Regular Instruction	1,174,965	1,105,961
Vocational Instruction	122,244	111,759
Exceptional Instruction	229,847	154,247
Instructional Support Services	36,649	27,778
Pupil Support Services	191,224	185,966
Site, Buildings, and Equipment	724,549	689,694
Fiscal and Other Fixed Cost Programs	18,789	14,753
Food Service	163,631	89,734
Community Service	79,065	52,496
Interest and Fiscal Charges on Long-term Liabilities	<u>374,123</u>	<u>381,473</u>
<b>Total expenses</b>	<b>3,375,182</b>	<b>2,989,298</b>
<b>Change in net assets</b>	<b><u>(371,400)</u></b>	<b><u>8,953</u></b>

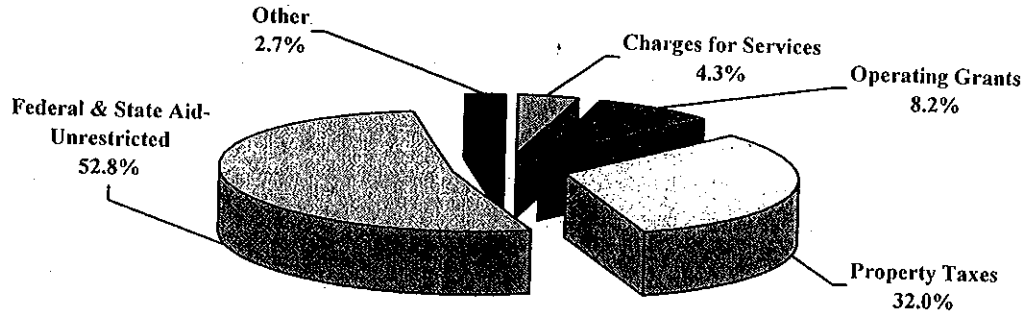
The district's total revenue consisted of program revenues of \$373,953, property taxes of \$960,077, federal and state aid not restricted to specific purposes of \$1,588,798, and other revenues of \$80,954.

The cost of all governmental activities this year was \$3,375,182.

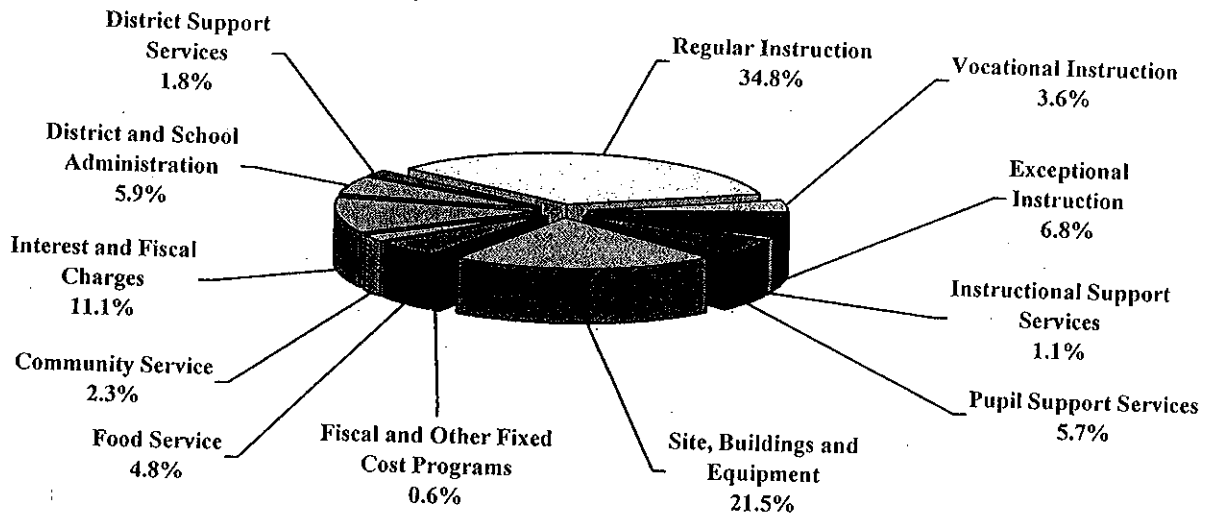
- The users of the district programs paid for \$128,659 or 3.8% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$245,294 or 7.3% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$1,588,798 or 47.1% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

**Figure A - Sources of Revenues for Fiscal Year 2012**



**Figure B - Expenses for Fiscal Year 2012**



**Financial Analysis of the District's Funds (Fund Financial Statements)**

**Fund Balance**

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund balance of \$399,827, which is a decrease of \$201,181 over the prior year fund balance of \$601,008. The General Fund decrease of \$202,366 is mainly due to salaries. The Food Service Fund had an decrease of \$274. The Community Service Fund decrease of \$29,466 is from salaries. The Debt Service Fund had an increase of \$30,925.

**Revenues and Expenditures/Expenses**

Revenues of the district's governmental funds totaled \$3,001,300 while total expenditures were \$3,202,481. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	2,159,659	2,330,662	(31,363)	(202,366)
Food Service Fund	131,994	163,631	31,363	(274)
Community Service Fund	49,599	79,065		(29,466)
Debt Service Fund	660,048	629,123		30,925
Total	<u>3,001,300</u>	<u>3,202,481</u>	<u>-0-</u>	<u>(201,181)</u>

**General Fund Budgetary Analysis**

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2012, the District revised the budget for various reasons. None of the revisions were considered significant.

- Actual general fund revenues were under budget by \$48,483 primarily due to Tuition from Other Minnesota Districts
- Actual general fund expenditures were over budget by \$233,442 primarily due to under budgeting expenditures for salaries.

**Capital Assets**

Additions for the fiscal year of \$44,462 include the purchase of a vehicle.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2012.

**Table 3  
Capital Assets**

	2012	2011	Increase (Decrease)
Land	9,694	9,694	
Land Improvements	10,093,594	10,093,594	
Buildings and Improvements	1,030,999	1,038,800	(7,801)
Equipment	304,798	322,278	(17,480)
Vehicles	20,592	-0-	20,592
Less: Accumulated Depreciation	<u>(1,725,692)</u>	<u>(1,231,441)</u>	<u>(494,251)</u>
Total	<u>9,733,985</u>	<u>10,232,925</u>	<u>(498,940)</u>
Depreciation Expense	<u>532,613</u>	<u>279,761</u>	<u>252,852</u>

Independent School District No. 403  
Ivanhoe, Minnesota

**Long-Term Liabilities**

In fiscal year 2012 the District had General Obligation School Building Bonds of 2008 with an outstanding balance of \$9,215,000. Severance liability decreased by \$84,933.

**Factors Bearing on the District's Future**

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

**Contacting the District's Management**

This financial report is designed to provide 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 Independent School District No. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

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

	2012	2011
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash and Investments	805,663	1,274,586
Receivables:		
Property Taxes	432,352	517,583
Governmental Units	522,518	554,954
Other	681	61
Inventory	1,068	2,054
Prepaid Items	3,847	923
Capital Assets:		
Non-Depreciable	9,694	9,694
Depreciable - net of accumulated depreciation	9,724,291	10,223,231
<b>Total Assets</b>	11,500,114	12,583,086
 <b><u>Liabilities</u></b>		
Accounts Payable	16,379	9,503
Salaries Payable	99,243	67,494
Due to Other Governmental Units	13,180	140,466
Payroll Deductions	53,874	41,581
Deferred Revenue	7,799	6,005
Property Taxes Levied for Subsequent Year	802,352	881,544
Short Term Indebtedness	366,541	598,108
Long-term Liabilities:		
Portion Due Within One Year	289,700	311,269
Portion Due in More Than One Year	9,024,440	9,329,110
<b>Total Liabilities</b>	10,673,508	11,385,080
 <b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	518,985	762,925
Restricted for:		
General Fund State Mandated Purposes	127,082	247,701
Food Service	8,990	6,479
Community Service	11,958	52,496
Debt Service	105,820	74,895
Unrestricted	53,771	53,510
<b>Total Net Assets</b>	826,606	1,198,006
<b>Total Liabilities and Net Assets</b>	11,500,114	12,583,086

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>	
		<b>Charges For Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Total Government Activities</b>	
					<b>2012</b>	<b>2011</b>
<b>Governmental Activities</b>						
District and School Administration	200,758				(200,758)	(140,390)
District Support Services	59,338				(59,338)	(35,047)
Regular Instruction	1,174,965	29,993	65,542		(1,079,430)	(748,326)
Vocational Instruction	122,244				(122,244)	(111,759)
Exceptional Instruction	229,847		111,570		(118,277)	(97,876)
Instructional Support Services	36,649				(36,649)	(27,778)
Pupil Support Services	191,224				(191,224)	(185,966)
Site, Buildings and Equipment	724,549				(724,549)	(689,694)
Fiscal and Other Fixed Cost Programs	18,789				(18,789)	(14,753)
Food Service	163,631	73,049	58,945		(31,637)	(1,904)
Community Service	79,065	25,617	9,237		(44,211)	(34,525)
<b>Interest and Fiscal Charges on Long-term Liabilities</b>						
Total	374,123				(374,123)	(381,473)
<b>Total</b>	<b>3,375,182</b>	<b>128,659</b>	<b>245,294</b>	<b>-0-</b>	<b>(3,001,229)</b>	<b>(2,469,491)</b>
<b><u>General Revenues</u></b>						
Property Taxes Levied for:						
General Purposes					328,115	464,716
Community Service					14,741	22,877
Debt Service					617,221	611,022
Federal and State Aid Not Restricted to Specific Purposes					1,588,798	1,338,639
Earnings on Investments					354	525
Miscellaneous					80,600	40,665
<b>Total General Revenues</b>					<b>2,629,829</b>	<b>2,478,444</b>
Change in Net Assets					(371,400)	8,953
Net Assets - Beginning					1,198,006	1,189,053
Net Assets - Ending					826,606	1,198,006

See accompanying notes to the financial statements.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

Assets	Major Funds			Total Governmental Funds		
	General	Food Service	Community Service	Debt Service	2012	2011
	Cash and Investments	351,304	7,428		446,931	805,663
Current Property Taxes Receivable	114,825		8,406	302,187	425,418	513,131
Delinquent Property Taxes Receivable	3,070		449	3,415	6,934	4,452
Accounts Receivable	171	494	16		681	61
Due From Other Minnesota Districts						89,397
Due From Department of Education	494,719		3,087	15,252	513,058	455,373
Due From Other Funds	2,696				2,696	
Due From Federal Government	9,460				9,460	10,184
Inventory		1,068			1,068	2,054
Prepaid Items	3,847				3,847	923
<b>Total Assets</b>	<b>980,092</b>	<b>8,990</b>	<b>11,958</b>	<b>767,785</b>	<b>1,768,825</b>	<b>2,350,161</b>
<b>Liabilities and Fund Equity</b>						
<b>Liabilities</b>						
Accounts Payable	15,542	199	638		16,379	9,503
Interest Payable	5,812				5,812	9,882
Salaries Payable	85,223	7,723	6,297		99,243	67,494
Short Term Indebtedness	360,729				360,729	588,226
Due to Other Governmental Units	424				424	280
Due to Other Minnesota School Districts	12,756				12,756	140,186
Due to Other Funds			2,696		2,696	
Payroll Deductions	53,874				53,874	41,581
Deferred Revenue-Other			7,799		7,799	6,005
Deferred Revenue-Delinquent Taxes	3,070		449	3,415	6,934	4,452
Property Taxes Levied for Subsequent Years	134,382		9,420	658,550	802,352	881,544
<b>Total Liabilities</b>	<b>671,812</b>	<b>7,922</b>	<b>27,299</b>	<b>661,965</b>	<b>1,368,998</b>	<b>1,749,153</b>
<b>Fund Equity</b>						
Fund Balance-Nonspendable	3,847	1,068			4,915	2,977
Fund Balance-Restricted	24,095		32,097	105,820	162,012	163,334
Fund Balance-Committed	99,140				99,140	184,073
Fund Balance-Unassigned	181,198		(47,438)		133,760	250,624
<b>Total Fund Equity</b>	<b>308,280</b>	<b>1,068</b>	<b>(15,341)</b>	<b>105,820</b>	<b>399,827</b>	<b>601,008</b>
<b>Total Liabilities and Equity</b>	<b>980,092</b>	<b>8,990</b>	<b>11,958</b>	<b>767,785</b>	<b>1,768,825</b>	<b>2,350,161</b>

See accompanying notes to the financial statements.



**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2012**

	<b>2012</b>	<b>2011</b>
Total Governmental Fund Balances	399,827	601,008
Amounts reported in Governmental Activities in The Statement of Net Assets are Different Because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds		
Cost of Capital Assets	11,459,677	11,464,366
Less: Accumulated Depreciation	<u>(1,725,692)</u>	<u>(1,231,441)</u>
	9,733,985	10,232,925
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue.		
	6,934	4,452
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(9,215,000)	(9,470,000)
Severance Payable	(99,140)	(184,073)
Net OPEB Liability	<u>-0-</u>	<u>13,694</u>
	<u>(9,314,140)</u>	<u>(9,640,379)</u>
Net Assets of Governmental Activities	<u>826,606</u>	<u>1,198,006</u>

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2012	2011
<b>Revenues</b>						
Local Property Tax Levies	325,633		14,741	617,221	957,595	1,097,616
Other Local and County Revenues	106,368		25,621	103	132,092	348,576
Revenue from State Sources	1,652,570	9,066	9,237	42,724	1,713,597	1,339,212
Revenue from Federal Sources	70,616	49,879			120,495	148,842
Other	4,472	73,049			77,521	60,643
<b>Total Revenues</b>	<b>2,159,659</b>	<b>131,994</b>	<b>49,599</b>	<b>660,048</b>	<b>3,001,300</b>	<b>2,994,889</b>
<b>Expenditures</b>						
District and School Administration	200,758				200,758	140,390
District Support Services	59,338				59,338	35,047
Regular Instruction	1,258,274				1,258,274	1,178,424
Vocational Instruction	122,084				122,084	111,599
Exceptional Instruction	229,847				229,847	154,247
Community Education and Services			79,065		79,065	52,496
Instructional Support Services	36,649				36,649	27,778
Pupil Support Services	209,741	163,631			373,372	274,912
Site, Buildings and Equipment	195,182				195,182	251,023
Fiscal and Other Fixed Cost Programs	18,789			629,123	647,912	641,226
<b>Total Expenditures</b>	<b>2,330,662</b>	<b>163,631</b>	<b>79,065</b>	<b>629,123</b>	<b>3,202,481</b>	<b>2,867,142</b>
Excess Revenues (Expenditures)	(171,003)	(31,637)	(29,466)	30,925	(201,181)	127,747
<b>Other Financing Sources (Uses)</b>						
Permanent Transfer	(31,363)	31,363				
Sale of Equipment						2,363
<b>Total Other Financing Sources (Uses)</b>	<b>(31,363)</b>	<b>31,363</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>2,363</b>
Net Change in Fund Balance	(202,366)	(274)	(29,466)	30,925	(201,181)	130,110
Fund Balance-Beginning	510,646	1,342	14,125	74,895	601,008	470,898
Fund Balance-Ending	308,280	1,068	(15,341)	105,820	399,827	601,008

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012		2011
Net Change in Governmental Fund Balances	(201,181)		130,110

Amounts reported for the governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital Outlay	44,462		63,309	
Disposal of Assets	(10,789)		(215,558)	
Depreciation Expense	(532,613)	(498,940)	(279,761)	(432,010)

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Bond Payments	255,000		245,000	
Severance	84,933	339,933	39,627	284,627

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore deferred in the funds.

	2,482		999
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in OPEB liability		(13,694)	25,227
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Change in Net Assets of Governmental Activities	(371,400)		8,953
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See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Better/(Worse) Than Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Property Tax Levies	405,691	405,691	325,633	(80,058)
Other Local and County Revenues	376,270	376,270	106,368	(269,902)
Revenue from State Sources	1,327,915	1,327,915	1,652,570	324,655
Revenue from Federal Sources	94,266	94,266	70,616	(23,650)
Other	4,000	4,000	4,472	472
Total Revenues	<u>2,208,142</u>	<u>2,208,142</u>	<u>2,159,659</u>	<u>(48,483)</u>
<b><u>Expenditures</u></b>				
District and School Administration	170,565	170,565	200,758	30,193
District Support Services	17,530	17,530	59,338	41,808
Regular Instruction	1,305,411	1,305,411	1,258,274	(47,137)
Vocational Instruction	115,466	115,466	122,084	6,618
Exceptional Instruction	93,785	93,785	229,847	136,062
Instructional Support Services	24,341	24,341	36,649	12,308
Pupil Support Services	196,920	196,920	209,741	12,821
Site, Building and Equipment	155,802	155,802	195,182	39,380
Fiscal and Other Fixed Cost Programs	17,400	17,400	18,789	1,389
Total Expenditures	<u>2,097,220</u>	<u>2,097,220</u>	<u>2,330,662</u>	<u>233,442</u>
Excess Revenues (Expenditures)	110,922	110,922	(171,003)	(281,925)
<b><u>Other Financing Sources (Uses)</u></b>				
Permanent Transfer			(31,363)	(31,363)
Sale of Equipment	500	500		(500)
Total Other Financing Sources (Uses)	<u>500</u>	<u>500</u>	<u>(31,363)</u>	<u>(31,863)</u>
Net Change in Fund Balance	<u>110,922</u>	<u>111,422</u>	<u>(202,366)</u>	<u>(313,788)</u>
Fund Balance-Beginning			510,646	
Fund Balance-Ending			<u>308,280</u>	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FOOD SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Better/(Worse) Than Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Other Local and County Revenues	100	100		(100)
Revenue from State Sources	4,100	4,100	9,066	4,966
Revenue from Federal Sources	28,100	28,100	49,879	21,779
Other	50,425	50,425	73,049	22,624
Total Revenues	82,725	82,725	131,994	49,269
<b><u>Expenditures</u></b>				
Pupil Support Services	46,227	46,227	163,631	(117,404)
Total Expenditures	46,227	46,227	163,631	(117,404)
Excess Revenues (Expenditures)	36,498	36,498	(31,637)	(68,135)
<b><u>Other Financing Sources (Uses)</u></b>				
Permanent Transfer			31,363	31,363
Total Other Financing Sources (Uses)	-0-	-0-	31,363	31,363
Net Change in Fund Balance	36,498	46,227	(274)	(36,772)
Fund Balance-Beginning			1,342	
Fund Balance-Ending			1,068	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR COMMUNITY SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Better/(Worse) Than Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Property Tax Levies	20,267	20,267	14,741	(5,526)
Other Local and County Revenues	9,750	9,750	25,621	15,871
Revenue from State Sources	12,106	12,106	9,237	(2,869)
Total Revenues	<u>42,123</u>	<u>42,123</u>	<u>49,599</u>	<u>7,476</u>
<b><u>Expenditures</u></b>				
Community Education and Services	<u>22,813</u>	<u>22,813</u>	<u>79,065</u>	<u>(56,252)</u>
Total Expenditures	<u>22,813</u>	<u>22,813</u>	<u>79,065</u>	<u>(56,252)</u>
Net Change in Fund Balance	<u>19,310</u>	<u>19,310</u>	(29,466)	<u>(48,776)</u>
Fund Balance-Beginning			14,125	
Fund Balance-Ending			<u>(15,341)</u>	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR DEBT SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Better/(Worse) Than Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Property Tax Levies	660,107	660,107	617,221	(42,886)
Other Local and County Revenues	7,100	7,100	103	(6,997)
Revenue from State Sources	111	111	42,724	42,613
Total Revenues	<u>667,318</u>	<u>667,318</u>	<u>660,048</u>	<u>(7,270)</u>
<b><u>Expenditures</u></b>				
Fiscal and Other Fixed Cost Programs	<u>629,125</u>	<u>629,125</u>	<u>629,123</u>	<u>2</u>
Total Expenditures	<u>629,125</u>	<u>629,125</u>	<u>629,123</u>	<u>2</u>
Net Change in Fund Balance	<u>38,193</u>	<u>38,193</u>	30,925	<u>(7,268)</u>
Fund Balance-Beginning			74,895	
Fund Balance-Ending			<u>105,820</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS  
EXPENDABLE TRUST FUND  
JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and Investments	5,156	4,713
<b>Total Assets</b>	<u>5,156</u>	<u>4,713</u>
<u>Net Assets</u>		
Reserved for Scholarships	5,156	4,713
<b>Total Net Assets</b>	<u>5,156</u>	<u>4,713</u>

See accompanying notes to the financial statements.



**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**EXPENDABLE TRUST FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b><u>Additions</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Gifts	681	
Interest Income	12	11
Total Additions	693	11
<b><u>Deductions</u></b>		
Scholarships	250	200
Change in Net Assets	443	(189)
Net Assets - Beginning of Year	4,713	4,902
Net Assets - End of Year	<u>5,156</u>	<u>4,713</u>

See accompanying notes to the financial statements.

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

**Note 1**     **Summary of Significant Accounting Policies**

**A.**     **Basis of Presentation**

The financial statements of Independent School District No. 403 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B.**     **Financial Reporting Entity**

Independent School District 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

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

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

**Note 1**     **Summary of Significant Accounting Policies - continued**

**B.     Financial Reporting Entity - continued**

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**C.     Basic Financial Statement Presentation**

The District-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 Statements of Fiduciary Net Assets at the fund financial statement level.

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

The District applies restricted resources first when an expense is incurred for 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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the District-wide financial statements.

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

**Note 1**     **Summary of Significant Accounting Policies - continued**

**C.**     **Basic Financial Statement Presentation - continued**

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

**D.**     **Basis of Accounting and Measurement Focus**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made.

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

**Note 1**     **Summary of Significant Accounting Policies - continued**

**D.**     **Basis of Accounting and Measurement Focus - continued**

State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

**Governmental Funds**

**General Fund**

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

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

Note 1 **Summary of Significant Accounting Policies - continued**

D. **Basis of Accounting and Measurement Focus - continued**  
**Governmental Funds - continued**  
**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

**Debt Service Fund**

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

**Fiduciary Funds**

**Agency Fund**

The Agency Fund is used to account for the assets belonging to student organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

E. **Budgets and Budgetary Accounting**

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

F. **Cash and Temporary Investments**

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

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

**Note 1 Summary of Significant Accounting Policies - continued**

**F. Cash and Temporary Investments - continued**

Short-term, highly liquid debt instruments (including commercial paper, bankers' 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.

The school District uses the average cash balance method of allocating investment income to the various funds.

**G. Accounts Receivable**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**H. Inventories**

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

**I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

**J. Property Tax Recognition**

The levy certification is made in December of each year. The tax levy is collectible as of January 2<sup>nd</sup> of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

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

**Note 1    Summary of Significant Accounting Policies - continued**

**J.    Property Tax Recognition - continued**

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2012, and will be recognized as revenue during the fiscal year ending June 30, 2013. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

**K.    Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

**L.    Long-Term Obligations**

In the district-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 straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.



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

**Note 1**    **Summary of Significant Accounting Policies - continued**

**L.**    **Long-Term Obligations - continued**

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

**M.**    **Fund Equity**

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the natures and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds.

The following are the five fund balance categories used by the District:

**Non-Spendable Fund Balance**

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

**Restricted Fund Balance**

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

**Committed Fund Balance**

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

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

**M. Fund Equity-continued**

**Assigned Fund Balance**

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

**Unassigned Fund Balance**

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

**N. Net Assets**

Net assets represent the difference between assets and liabilities in the District-wide and Fiduciary Fund 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 District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**O. Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP.

Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

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

**Note 1     Summary of Significant Accounting Policies - continued**

**P.     Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Note 2     Deposits and Investments**

**A.     Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2012, none of the District's bank balance of \$465,959 was exposed to custodial credit risk.

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

**Note 2    Cash and Investments - continued**

**B.    Investments**

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District's investments are potentially subject to various risks including the following:

**Custodial Credit Risk**

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

**Credit Risk**

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

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

**Note 2**    **Cash and Investments - continued**

**B.**    **Investments - continued**

**Concentration of Credit Risk**

The risk of loss that may be caused by the District's investment in a single issuer.

**Interest Rate Risk**

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

	<u>Credit Risk</u>		<u>Concentration Risk Over 5% of Portfolio</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>			
Investment Pools					
Minnesota School District Liquid Asset Fund Plus Liquid Class	AAAm	S & P	19%	N/A	77,922
Minnesota School District Liquid Asset Fund Plus MAX Class	AAAm	S & P	81%	N/A	<u>324,813</u>
Total Investments					402,735
Nonnegotiable Certificates of Deposit					3,400
Deposits					<u>403,938</u>
Total Cash and Investments					<u><u>810,073</u></u>

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

Cash and temporary investments – statement of net assets	805,663
Cash and temporary investments – statement of fiduciary net assets	<u>5,156</u>
	<u><u>810,073</u></u>

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

**Note 3 Due From Other Minnesota School Districts**

The amounts due from other Minnesota School Districts are as follows:

	<b>June 30</b>	
<b><u>General Fund</u></b>	<b>2012</b>	<b>2011</b>
Independent School District No. 402		
Hendricks – Reimbursable Expenses		89,266
Independent School District No. 891		
Canby – Reimbursable Expenses		131
Total General Fund	-0-	89,397
Total All Funds	-0-	89,397

**Note 4 Due From Department of Education**

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	<b>June 30</b>	
<b><u>General Fund</u></b>	<b>2012</b>	<b>2011</b>
General Education Aid	448,739	427,262
Other State Credits	9,779	7,465
Special Education	36,201	5,581
Total General Fund	494,719	440,308
<b><u>Special Revenue Funds</u></b>		
<b><u>Community Service Fund</u></b>		
Early Childhood and Family Education	2,083	194
Other State Credits	1,004	898
Total Community Services	3,087	1,092
Total Special Revenue Funds	3,087	1,092
<b><u>Debt Service Fund</u></b>		
Other State Credits	15,252	13,973
Total All Funds	513,058	455,373

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

**Note 5** **Due From Federal Government Through the Department of Education**  
Amounts due from the federal government through the Department of Education are as follows:

<b><u>General Fund</u></b>	<b><u>June 30</u></b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Federal Program - Title I	8,302	6,815
- Title II	1,158	1,190
- ARRA Ed Jobs	<u>-0-</u>	<u>2,179</u>
Total General Fund	<u>9,460</u>	<u>10,184</u>

**Note 6** **Capital Assets**  
Capital asset activity for the year ended June 30, 2012 was as follows:

	<b><u>Balance</u></b> <b><u>07/01/11</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Balance</u></b> <b><u>06/30/12</u></b>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	10,093,594			10,093,594
Buildings	1,038,800	6,020	(13,821)	1,030,999
Equipment	322,278	17,850	(35,330)	304,798
Vehicles		20,592		20,592
Total capital assets depreciated	<u>11,454,672</u>	<u>44,492</u>	<u>(49,151)</u>	<u>11,449,983</u>
Less accumulated depreciation for				
Land Improvements	(252,339)	(504,680)		(757,019)
Buildings	(843,124)	(7,419)	3,032	(847,511)
Equipment	(135,978)	(19,227)	35,330	(119,875)
Vehicles		(1,287)		(1,287)
Total Accumulated Depreciation	<u>(1,231,441)</u>	<u>(532,613)</u>	<u>38,362</u>	<u>(1,725,692)</u>
Total capital assets depreciated – net	<u>10,223,231</u>	<u>(488,121)</u>	<u>(10,789)</u>	<u>9,724,291</u>
Net Capital Assets	<u>10,232,925</u>	<u>(488,121)</u>	<u>(10,789)</u>	<u>9,733,985</u>

Depreciation expense of \$532,613 for the year ended June 30, 2012 was charged to the following governmental functions:

Regular Instruction	3,771
Vocational Instruction	160
Pupil Support Services	2,075
Sites, Buildings, and Equipment	<u>526,607</u>
Total	<u>532,613</u>

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

**Note 7     Due To Other Minnesota School Districts**

The amounts due to other Minnesota School Districts are as follows:

	<b>June 30</b>	
<b><u>General Fund</u></b>	<b>2012</b>	<b>2011</b>
Independent School District No. 402		
Hendricks – Reimbursements		106,378
Independent School District No. 099		
SW/WC Service Coop – Reimbursements	12,756	13,221
Total General Fund	12,756	119,599
<b><u>Special Revenue Fund</u></b>		
<b><u>Community Service Fund</u></b>		
Independent School District No. 402		
Hendricks – Reimbursements		20,587
Total Special Revenue Funds	-0-	20,587
Total All Funds	12,756	140,186

**Note 8     Due to Other Governmental Units**

Amounts due to Other Governmental Units are as follows:

	<b>June 30</b>	
<b><u>General Fund</u></b>	<b>2012</b>	<b>2011</b>
Lincoln County Treasurer	113	
Minnesota Department of Revenue		
Sales Tax	311	280
Total General Fund	424	280



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

**Note 9 Long-Term Liabilities**

**A. Bonds Payable**

Bonds payable at June 30, 2012 are comprised of the following items:

	<b><u>Balance</u></b> <b><u>June 30, 2012</u></b>
General Obligation School Building Bonds, Series 2008A, due in annual installments of \$235,000 to \$635,000 through February 1, 2034, interest at 3.00% to 4.15%.	<u>9,215,000</u>
Total Bonds Payable	<u>9,215,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2012, including interest payments, are listed below.

<b>Year Ended</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
<b><u>June 30</u></b>			
2013	265,000	366,023	631,023
2014	275,000	356,748	631,748
2015	285,000	347,123	632,123
2016	300,000	337,148	637,148
2017	310,000	326,648	636,648
2018-2022	1,745,000	1,444,988	3,189,988
2023-2027	2,140,000	1,065,788	3,205,788
2028-2032	2,655,000	595,780	3,250,780
2033-2037	1,240,000	77,813	1,317,813
Total	<u>9,215,000</u>	<u>4,918,059</u>	<u>14,133,059</u>

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

The following is a schedule of the changes in Long-Term Liabilities:

	<b><u>Balance</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Balance</u></b>	<b><u>Due Within</u></b>
	<b><u>7/01/11</u></b>			<b><u>6/30/12</u></b>	<b><u>One Year</u></b>
Bonds Payable	9,470,000		255,000	9,215,000	265,000
Net OPEB Liability	(13,694)	13,694		-	-
Severance Pay	184,073	99,140	184,073	99,140	24,700
Total	<u>9,640,379</u>	<u>11,632</u>	<u>321,486</u>	<u>9,314,140</u>	<u>289,700</u>

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

**Note 10 Fund Balances**

**Non-Spendable Fund Balance**

The District has the following non-spendable fund balances as of June 30, 2012:

**General Fund**

Prepaid Expenses	3,847
Total General Fund	3,847

**Special Revenue Funds**

**Food Service**

Inventory	1,068
Total Special Revenue Funds	1,068
Total All Funds	4,915

**Restricted Fund Balance**

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2012:

**General Fund**

Deferred Maintenance	9,549
Health & Safety	(10,957)
Operating Capital	11,236
Gifted & Talented	3,310
Safe Schools	(13,121)
UFARS Balance	17
GASB 54 Elimination of Negative Restricted Balances	24,078
Total General Fund	24,095

**Special Revenue Funds**

**Community Services**

Community Education	6,250
Early Childhood and Family Education	25,847
School Readiness	(46,501)
UFARS Balance	(14,404)
GASB 54 Elimination of Negative Restricted Balances	46,501
Total Special Revenue Funds	32,097

**Debt Service**

Restricted	105,820
Total Debt Service Fund	105,820
Total All Funds	162,012

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

**Note 10**    **Fund Balances – continued**

**Committed Fund Balance**

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has the following committed fund balances as of June 30, 2012.

**General Fund**

Separation	<u>99,140</u>
Total General Fund	<u>99,140</u>
Total All Funds	<u>99,140</u>

**Assigned Fund Balance**

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2012.

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

**Note 10 Fund Balances – continued**

**Unassigned Fund Balance**

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2012:

**General Fund**

UFARS Balance	205,276
GASB 54 Elimination of Negative Restricted Balances	(24,078)
Total General Fund	<u>181,198</u>

**Special Revenue Funds**

**Community Service**

UFARS Balance	(937)
GASB 54 Elimination of Negative Restricted Balances	(46,501)
Total Community Service Fund	<u>(47,438)</u>
Total Special Revenue Funds	<u>(47,438)</u>

Total All Funds	<u>133,760</u>
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**Stabilization Amounts**

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2012.

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

**Note 11 Pension Plan**

**A. Teacher Retirement Association**

**1. Plan Description**

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

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

Two methods are used to compute benefits for 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:

<b><u>Tier I</u></b>	<b><u>Step Rate Formula</u></b>	<b><u>Percentage</u></b>
<b>Basic</b>	1 <sup>st</sup> ten years	2.2 percent per year
	All years after	2.7 percent per year
<b>Coordinated</b>	1 <sup>st</sup> ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if Service years are July 1, 2006 or after	1.9 percent per year

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

**Note 11    Pension Plan - continued**

**A.    Teacher Retirement Association - continued**

**1.    Plan Description - continued**

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

**Tier II:** For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic 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 to 5.5 percent per year.

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

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

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

**Note 11 Pension Plan - continued**

**A. Teacher Retirement Association - continued**

**2. Plan Description - continued**

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](http://www.tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association  
60 Empire Drive, Suite 400  
St Paul MN 55103-4000  
(651) 296-6449  
(800) 657-3853

**2. 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 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5 percent for Coordinated members and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2011 was approximately \$3.79 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2009 and June 30, 2008 were \$3.76 billion and \$3.65 billion, respectively.

The District's contributions for the years ending June 30, 2012, 2011 and 2010, were \$54,259, \$35,983, and \$38,801, respectively, equal to the required contributions for each year as set by state statute.

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

**Note 11 Pension Plan - continued**

**B. Public Employees Retirement Association (PERA)**

**1. Plan Description**

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

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

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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year.



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

**Note 11 Pension Plan - continued**

**B. Public Employees Retirement Association (PERA) - continued**

**1. Plan Description - continued**

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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

**Note 11 Pension Plan - continued**

**B. Public Employees Retirement Association (PERA) - continued**

**2. 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.0% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2012, 2011, and 2010, were \$15,850, \$11,065, and \$13,699 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**C. Other Postemployment Benefits (OPEB)**

The school has no liability for postemployment benefits other than pension benefits.

**Note 12 Vacation and Sick Leave**

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year round employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

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

**Note 13 Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

**Note 14 Subsequent Events**

Subsequent events have been evaluated through November 8, 2012, which is the date the financial statements were available to be issued.

**Note 15 Due To/From Other Funds**

Below is a schedule of interfund receivables and payables at June 30, 2012.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	2,696	
Community Service Fund		2,696

The interfund receivable/payable was created to record the pooled cash that was overdrawn in the community service fund.

**Note 16 Excess Expenditures over Budget Appropriations**

The following funds had excess expenditures over budget appropriations for the year ended June 30, 2012:

General	233,442
Food Service	117,404
Community Service Fund	56,252

The excess expenditures wer due primarily because of the district operating grades K-12 for the year ended June 30, 2012.

**Note 17 Deficit Fund Balance**

The following fund had a deficit fund balance at June 30, 2012:

Community Service Fund	15,341
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**GENERAL FUND**  
**BALANCE SHEET**  
**JUNE 30, 2012**

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and Investments	351,304	827,746
Current Property Taxes Receivable	114,825	183,554
Delinquent Property Taxes Receivable	3,070	1,713
Accounts Receivable	171	41
Prepays	3,847	923
Due From Other Minnesota Districts		89,397
Due From Department of Education	494,719	440,308
Due From Other Funds	2,696	
Due From Federal Government	9,460	10,184
Total Assets	<u>980,092</u>	<u>1,553,866</u>
<u>Liabilities and Fund Equity</u>		
<u>Liabilities</u>		
Salaries Payable	85,223	61,644
Accounts Payable	15,542	8,970
Short Term Indebtedness	360,729	588,226
Interest Payable	5,812	9,882
Due to Other Governmental Units	424	280
Due to Other Minnesota School Districts	12,756	119,599
Payroll Deductions	53,874	41,581
Deferred Revenue-Delinquent Taxes	3,070	1,713
Property Taxes Levied for Subsequent Years	134,382	211,325
Total Liabilities	<u>671,812</u>	<u>1,043,220</u>
<u>Fund Equity</u>		
Fund Balance-Nonspendable	3,847	923
Fund Balance-Restricted	24,095	62,705
Fund Balance-Committed	99,140	184,073
Fund Balance-Unassigned	181,198	262,945
Total Fund Equity	<u>308,280</u>	<u>510,646</u>
Total Liabilities and Equity	<u>980,092</u>	<u>1,553,866</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Year Ended June 30			
	2012		2011	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	405,691	390,876	(14,815)	288,603
Local Property Tax Shift		(65,243)	(65,243)	175,114
	<u>405,691</u>	<u>325,633</u>	<u>(80,058)</u>	<u>463,717</u>
<u>Other Local and County Revenues</u>				
County Apportionment	7,000	6,172	(828)	6,849
Admissions	27,170	29,657	2,487	28,696
Gifts	500	28,363	27,863	
Interest Income	5,000	247	(4,753)	400
Rent of Facilities	2,500	2,536	36	2,551
Other Revenues	18,000	39,057	21,057	17,439
Tuition from Other Minnesota Districts	316,100	336	(315,764)	269,420
Total Other Local and County Revenues	<u>376,270</u>	<u>106,368</u>	<u>(269,902)</u>	<u>325,355</u>
<u>Revenue From State Sources</u>				
Disparity Reduction Aid		2,050	(3,707)	1,327
Endowment Fund Apportionment	5,757	5,627	5,627	5,384
General Education Aid	1,294,345	1,463,194	168,849	1,406,845
Market Value Credit		13,587	13,587	8,464
Other State Aids	13	1,299	1,286	109
Property Tax Shift Offset		65,243	65,243	(175,114)
Special Education	27,800	101,570	73,770	39,679
Total Revenue From State Sources	<u>1,327,915</u>	<u>1,652,570</u>	<u>324,655</u>	<u>1,286,694</u>
<u>Revenue From Federal Sources</u>				
Federal Aid Programs	94,266	70,616	(23,650)	121,259
<u>Sales and Other Conversion of Assets</u>				
Judgements		297	297	
Sale of Materials	4,000	4,175	175	4,767
Total Sales and Other Conversion of Assets	<u>4,000</u>	<u>4,472</u>	<u>472</u>	<u>4,767</u>
Total Revenues	<u>2,208,142</u>	<u>2,159,659</u>	<u>(48,483)</u>	<u>2,201,792</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Year Ended June 30</u>			
	<u>2012</u>		<u>2,011</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>	<u>Actual</u>
<b><u>Expenditures</u></b>				
<b><u>District and School Administration</u></b>				
Dues and Memberships	6,650	3,629	(3,021)	7,046
Fixed Charges and Employee Benefits	29,903	24,765	(5,138)	17,146
Professional Services	6,458	70,804	64,346	6,489
Salaries	121,272	98,776	(22,496)	102,370
Supplies	(525)	744	1,269	1,054
Travel and Transportation	6,807	2,040	(4,767)	5,708
Utilities				577
Total District and School Administration	170,565	200,758	30,193	140,390
<b><u>District Support</u></b>				
Dues and Memberships	5,600	5,718	118	3,277
Equipment Leased	780	732	(48)	732
Fixed Charges and Employee Benefits	(6,430)	5,731	12,161	
Professional Services	30,200	32,261	2,061	30,193
Salaries	(12,920)	12,657	25,577	
Supplies		2,239	2,239	785
Travel and Transportation	300		(300)	60
Total District Support Services	17,530	59,338	41,808	35,047
<b><u>Regular Instruction</u></b>				
<b><u>Elementary School</u></b>				
Equipment	(2,500)	12,047	14,547	
Fixed Charges and Employee Benefits	(3,565)	101,386	104,951	30,804
Pairing/Sharing Chargebacks	(289,258)		289,258	(129,054)
Professional Services	(1,000)	7,713	8,713	
Salaries	(16,477)	316,880	333,357	147,741
Supplies	26,100	51,200	25,100	
Travel and Transportation		1,762	1,762	282
Tuition to Other Minnesota School Districts	806,894		(806,894)	363,823
Total Elementary	520,194	490,988	(29,206)	413,596

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Year Ended June 30			
	2012		2011	
	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>	<u>Actual</u>
<b><u>Expenditures - continued</u></b>				
<b><u>Regular Instruction - continued</u></b>				
<b><u>Secondary School</u></b>				
Dues and Memberships	1,780	2,385	605	2,301
Equipment	25,000	24,174	(826)	44,343
Fixed Charges and Employee Benefits	150,840	140,379	(10,461)	121,288
Instructional Supplies	31,325	23,145	(8,180)	36,951
Pairing/Sharing Chargebacks	56,980		(56,980)	30,388
Professional Services	40,634	41,777	1,143	35,859
Repairs and Maintenance	5,750	8,932	3,182	3,634
Salaries	382,294	384,709	2,415	371,335
Supplies	32,975	17,370	(15,605)	26,683
Travel and Transportation	51,189	76,705	25,516	74,343
Tuition to Other Minnesota School Districts	6,450	47,710	41,260	17,703
Total Secondary	<u>785,217</u>	<u>767,286</u>	<u>(17,931)</u>	<u>764,828</u>
Total Regular Instruction	1,305,411	1,258,274	(47,137)	1,178,424
<b><u>Vocational Instruction</u></b>				
Professional Services	2,600	2,597	(3)	204
Fixed Charges and Employee Benefits	24,259	27,804	3,545	23,513
Instructional Supplies	12,350	9,934	(2,416)	10,149
Repair and Maintenance	(200)	1,312	1,512	1,284
Salaries	75,957	79,851	3,894	76,149
Travel and Transportation	500	586	86	300
Total Vocational Instruction	<u>115,466</u>	<u>122,084</u>	<u>6,618</u>	<u>111,599</u>
<b><u>Exceptional Instruction</u></b>				
Equipment				1,573
Fixed Charges and Employee Benefits	37,371	61,030	23,659	29,477
Instructional Supplies	(370)	3,227	3,597	199
Professional Services		1,089	1,089	
Salaries	52,919	126,081	73,162	89,490
Travel and Transportation	1,400	2,885	1,485	1,302
Tuition to Other Minnesota School Districts	12,465	18,518	6,053	12,340
Tuition to Out of State School Districts	(10,000)	17,017	27,017	19,866
Total Exceptional Instruction	<u>93,785</u>	<u>229,847</u>	<u>136,062</u>	<u>154,247</u>
<b><u>Instructional Support Services</u></b>				
Equipment	(1,000)	935	1,935	
Fixed Charges and Employee Benefits	2,344	3,125	781	1,286
Instructional Supplies	500	1,579	1,079	837
Professional Services	8,100	18,157	10,057	18,344
Salaries	8,327	8,382	55	4,503
Supplies	1,070	2,358	1,288	698
Travel and Transportation	5,000	2,113	(2,887)	2,110
Total Instructional Support	<u>24,341</u>	<u>36,649</u>	<u>12,308</u>	<u>27,778</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Year Ended June 30			
	2012		2011	
	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>	<u>Actual</u>
<b>Expenditures - continued</b>				
<b><u>Pupil Support</u></b>				
Fixed Charges and Employee Benefits	6,440	6,938	498	9,266
Fuel	32,500	40,116	7,616	39,271
Insurance	1,050	999	(51)	1,021
Professional Services	100	8,566	8,466	2,040
Pupil Transportation	162,000	168,735	6,735	159,473
Salaries	(1,915)	22,771	24,686	18,596
Supplies	800	823	23	17
Transportation Chargebacks	(54,550)	(82,409)	(27,859)	(87,881)
Tuition to Other Minnesota School Districts				849
Travel and Transportation	50,495	43,202	(7,293)	42,526
<b>Total Pupil Support</b>	<u>196,920</u>	<u>209,741</u>	<u>12,821</u>	<u>185,178</u>
<b><u>Site, Building and Equipment</u></b>				
Building Chargebacks				4,750
Building Improvements	(4,000)	3,456	7,456	37,772
Dues	50		(50)	
Equipment	6,900	7,400	500	162
Fixed Charges and Employee Benefits	15,822	18,060	2,238	21,344
Fuel	2,000	1,633	(367)	2,489
Other	30	40	10	40
Professional Services	10,450	15,619	5,169	20,626
Repair and Maintenance Service	24,725	22,107	(2,618)	29,116
Salaries	26,000	40,670	14,670	51,507
Supplies	(350)	8,145	8,495	2,903
Travel and Transportation	1,275		(1,275)	75
Utilities	72,900	78,052	5,152	80,239
<b>Total Site, Building and Equipment</b>	<u>155,802</u>	<u>195,182</u>	<u>39,380</u>	<u>251,023</u>
<b><u>Fixed Cost Programs</u></b>				
Interest	5,000	4,216	(784)	4,884
Property Insurance	12,400	14,573	2,173	9,869
<b>Total Fixed Cost Programs</b>	<u>17,400</u>	<u>18,789</u>	<u>1,389</u>	<u>14,753</u>
<b>Total Expenditures</b>	<u>2,097,220</u>	<u>2,330,662</u>	<u>233,442</u>	<u>2,098,439</u>
Excess Revenues (Expenditures)	110,922	(171,003)	(281,925)	103,353
<b><u>Other Financing Sources</u></b>				
Permanent Transfer		(31,363)	(31,363)	
Sale of Equipment	500		(500)	2,363
<b>Total Other Financing Sources (Uses)</b>	<u>500</u>	<u>(31,363)</u>	<u>(31,863)</u>	<u>2,363</u>
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	<u>111,422</u>	<u>(202,366)</u>	<u>(313,788)</u>	<u>105,716</u>
Fund Balance-July 1		510,646		404,930
Fund Balance-June 30		<u>308,280</u>		<u>510,646</u>



**ALL SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2012**

<u>Assets</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Total (Memo Only)</u>	
			<u>2012</u>	<u>2011</u>
Cash	7,428		7,428	45,852
Current Property Taxes Receivable		8,406	8,406	9,536
Delinquent Property Taxes Receivable		449	449	421
Accounts Receivable	494	16	510	20
Due from Department of Education		3,087	3,087	1,092
Inventory	1,068		1,068	2,054
<b>Total Assets</b>	<b><u>8,990</u></b>	<b><u>11,958</u></b>	<b><u>20,948</u></b>	<b><u>58,975</u></b>
<u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Accounts Payable	199	638	837	533
Salaries Payable	7,723	6,297	14,020	5,850
Due to Other Minnesota Districts				20,587
Due to Other Funds		2,696	2,696	
Deferred Revenue - Other		7,799	7,799	6,005
Deferred Revenue - Delinquent Taxes		449	449	421
Property Taxes Levied for Subsequent Years		9,420	9,420	10,112
<b>Total Liabilities</b>	<b><u>7,922</u></b>	<b><u>27,299</u></b>	<b><u>35,221</u></b>	<b><u>43,508</u></b>
<u>Fund Equity</u>				
Fund Balance-Restricted		32,097	32,097	25,734
Fund Balance-Nonspendable	1,068		1,068	2,054
Fund Balance-Unassigned		(47,438)	(47,438)	(12,321)
<b>Total Fund Equity</b>	<b><u>1,068</u></b>	<b><u>(15,341)</u></b>	<b><u>(14,273)</u></b>	<b><u>15,467</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>8,990</u></b>	<b><u>11,958</u></b>	<b><u>20,948</u></b>	<b><u>58,975</u></b>

**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<u>Revenues</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Total (Memo Only)</u>	
			<u>2012</u>	<u>2011</u>
Local Property Tax Levy		14,741	14,741	22,877
Other Local and County Revenues		25,621	25,621	16,605
Revenue from State Sources	9,066		9,066	4,371
Revenue from Federal Sources	49,879	9,237	59,116	29,154
Other	73,049		73,049	55,876
Total Revenues	<u>131,994</u>	<u>49,599</u>	<u>181,593</u>	<u>128,883</u>
<u>Expenditures</u>				
Community Education and Services		79,065	79,065	52,496
Pupil Support Services	163,631		163,631	89,734
Total Expenditures	<u>163,631</u>	<u>79,065</u>	<u>242,696</u>	<u>142,230</u>
Excess Revenues (Expenditures)	(31,637)	(29,466)	(61,103)	(13,347)
<u>Other Financing Sources</u>				
Permanent Transfer	31,363		31,363	
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	<u>(274)</u>	<u>(29,466)</u>	<u>(29,740)</u>	<u>(13,347)</u>
Excess Revenues (Expenditures)	(274)	(29,466)	(29,740)	(13,347)
Fund Balance-July 1	<u>1,342</u>	<u>14,125</u>	<u>15,467</u>	<u>28,814</u>
Fund Balance-June 30	<u><u>1,068</u></u>	<u><u>(15,341)</u></u>	<u><u>(14,273)</u></u>	<u><u>15,467</u></u>

**FOOD SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Year Ended June 30			
	2012		2011	
	Budget	Actual	Over/(Under) Budget	Actual
<b>Revenues</b>				
<u>Other Local and County Revenues</u>				
Interest Income	100		(100)	3
Total Local and County Revenues	100	-0-	(100)	3
<u>Revenue From State Sources</u>				
Lunch Reimbursement	2,400	3,659	1,259	2,413
Other State Aid	1,700	5,407	3,707	1,958
Total Revenue from State Sources	4,100	9,066	4,966	4,371
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	3,200	10,950	7,750	4,399
Commodities	4,900	4,709	(191)	3,916
Lunch Reimbursement	20,000	34,220	14,220	19,268
Total Revenue From Federal Sources	28,100	49,879	21,779	27,583
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	50,425	73,049	22,624	55,876
Total Revenues	82,725	131,994	49,269	87,833
<b>Expenditures</b>				
<u>Pupil Support Services</u>				
Commodities	2,925	4,350	(1,425)	3,557
Fixed Charges and Employee Benefits	11,067	30,599	(19,532)	16,071
Food	13,250	49,164	(35,914)	29,293
Milk	4,700	12,607	(7,907)	5,986
Other	435	625	(190)	640
Repairs and Maintenance	1,500	692	808	1,625
Salaries	10,520	50,618	(40,098)	31,480
Supplies	2,330	1,157	1,173	1,056
Travel		28	(28)	26
Utilities	(500)	13,791	(14,291)	
Total Expenditures	46,227	163,631	(117,404)	89,734
Excess Revenues (Expenditures)	36,498	(31,637)	(68,135)	(1,901)
<u>Other Financing Sources</u>				
Permanent Transfer		31,363	31,363	
Excess Revenues (Expenditures) After Other Financing Sources (Uses)	36,498	(274)	(36,772)	(1,901)
Fund Balance-July 1		1,342		3,243
Fund Balance-June 30		1,068		1,342

**COMMUNITY SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Year Ended June 30			
	2012		2011	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u> <u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	20,267	15,396	(4,871)	13,315
Property Tax Shift		(655)	(655)	9,562
Total Local Property Tax Levies	<u>20,267</u>	<u>14,741</u>	<u>(5,526)</u>	<u>22,877</u>
<u>Other Local and County Revenues</u>				
Fees from Patrons	9,500	25,617	16,117	16,400
Interest Income	100	4	(96)	23
Other	150		(150)	179
Total Other Local and County Revenues	<u>9,750</u>	<u>25,621</u>	<u>15,871</u>	<u>16,602</u>
<u>Revenue From State Sources</u>				
Disparity Aid		167	167	173
Homestead/Agriculture Credit		1,104	1,104	1,105
Other State Aids	12,106	7,311	(4,795)	9,855
Property Tax Shift		655	655	(9,562)
Total Revenue From State Sources	<u>12,106</u>	<u>9,237</u>	<u>(2,869)</u>	<u>1,571</u>
 Total Revenues	 42,123	 49,599	 7,476	 41,050
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment	1,600		1,600	
Fixed Charges and Employee Benefits	(4,365)	18,395	(22,760)	966
Instructional Supplies	950	1,647	(697)	
Other	3,300	2,206	1,094	1,373
Pairing/Sharing Chargebacks	35,026		35,026	38,213
Rent	2,500	2,476	24	2,476
Salaries	(19,505)	52,422	(71,927)	7,851
Supplies	(550)	1,709	(2,259)	1,617
Travel	3,857	210	3,647	
Total Expenditures	<u>22,813</u>	<u>79,065</u>	<u>(56,252)</u>	<u>52,496</u>
 Excess Revenues (Expenditures)	 <u>19,310</u>	 <u>(29,466)</u>	 <u>(48,776)</u>	 <u>(11,446)</u>
Fund Balance-July 1		14,125		25,571
Fund Balance-June 30		<u>(15,341)</u>		<u>14,125</u>

**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Year Ended June 30</u>			<u>2011</u>
	<u>2012</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse)</u> <u>Than Budget</u>	<u>Actual</u>
<b><u>Revenues</u></b>				
<b><u>Local Property Tax Levy</u></b>				
Local Tax Levy	660,107	617,221	(42,886)	611,022
<b><u>Other Local and County Revenues</u></b>				
Interest Income	200	103	(97)	99
Misc. Local Taxes	6,900		(6,900)	6,517
Total Other Local and County Revenues	7,100	103	(6,997)	6,616
<b><u>Revenue From State Sources</u></b>				
Disparity Aid		5,588	5,588	6,299
Market Value Credit		37,040	37,040	40,165
Other State Aid	111	96	(15)	112
Total Revenue From State Sources	111	42,724	42,613	46,576
Total Revenues	667,318	660,048	(7,270)	664,214
<b><u>Expenditures</u></b>				
Bond Interest	373,675	373,673	2	381,023
Bond Principal	255,000	255,000		245,000
Other Bond Expenses	450	450		450
Total Expenditures	629,125	629,123	2	626,473
Excess Revenues (Expenditures)	38,193	30,925	(7,268)	37,741
Fund Balance-July 1		74,895		37,154
Fund Balance-June 30		105,820		74,895

**UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Audit	UFARS	Audit - UFARS
<b><u>01 GENERAL FUND</u></b>			
Total Revenues	<u>2,159,659</u>	<u>2,159,655</u>	<u>4</u>
Total Expenditures	<u>2,330,662</u>	<u>2,330,658</u>	<u>4</u>
Non Spendable:			
4.60 Non Spendable	3,847	3,847	-0-
Restricted:			
4.03 Staff Development	-0-	-0-	-0-
4.05 Deferred Maintenance	9,549	9,549	-0-
4.06 Health and Safety	-0-	(10,957)	10,957
4.24 Operating Capital	11,236	11,236	-0-
4.38 Gifted & Talented	3,310	3,310	-0-
4.41 Basic Skills	-0-	-0-	-0-
4.49 Safe Schools	-0-	(13,121)	13,121
Committed:			
4.18 Designated - Severance	99,140	99,140	-0-
Unassigned:			
4.22 Unassigned	181,198	205,276	(24,078)
<b><u>02 FOOD SERVICE</u></b>			
Total Revenues	<u>131,994</u>	<u>131,994</u>	<u>-0-</u>
Total Expenditures	<u>163,631</u>	<u>163,631</u>	<u>-0-</u>
Non Spendable:			
4.60 Non Spendable	1,068	1,068	-0-
Unreserved:			
4.63 Unassigned	-0-	-0-	-0-
<b><u>04 COMMUNITY SERVICE</u></b>			
Total Revenues	<u>49,599</u>	<u>49,599</u>	<u>-0-</u>
Total Expenditures	<u>79,065</u>	<u>79,068</u>	<u>(3)</u>
Restricted:			
4.31 Community Education	6,250	6,250	-0-
4.32 Early Child & Family Education	25,847	25,847	-0-
4.44 School Readiness	-0-	(46,501)	46,501
Unassigned:			
4.63 Unassigned	(47,438)	(937)	(46,501)
<b><u>07 DEBT SERVICE</u></b>			
Total Revenues	<u>660,048</u>	<u>660,048</u>	<u>-0-</u>
Total Expenditures	<u>629,123</u>	<u>629,123</u>	<u>-0-</u>
Restricted:			
4.64 Restricted	105,820	105,821	(1)
<b><u>07 TRUST</u></b>			
Total Revenues	<u>692</u>	<u>692</u>	<u>-0-</u>
Total Expenditures	<u>250</u>	<u>250</u>	<u>-0-</u>
Unassigned:			
4.22 Unassigned	5,156	5,156	-0-

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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 Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Financial Reporting**

Management of the Independent School District No. 403 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Independent School District No. 403'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 Independent School District No. 403's, internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403's, internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we have identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses: 2012-I and 2012-II.

#### 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*.

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. 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 Independent School District No. 403, Ivanhoe, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We noted certain matters that we reported to management of Independent School District No. 402 in a separate letter dated November 8, 2012.

The Independent School District No. 403's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit Independent School District No. 403's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Governing Board, others within the entity, 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.



Meulebroeck, Taubert & Co., PLLP

Certified Public Accountants

November 8, 2012



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**INDEPENDENT AUDITOR'S REPORT ON THE**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**OF THE STUDENT ACTIVITY FUND**

To the Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe, Minnesota for the year ended June 30, 2012. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

The student activity account of Independent School District No. 403, Ivanhoe, Minnesota prepares its statement of cash receipts and disbursements on the cash basis which is a comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash transactions of the District's student activity account for the year ended June 30, 2012, and the cash balance at that date.

*Meulebroeck, Taubert & Co., PLLP*  
Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants

November 8, 2012

**STUDENT ACTIVITY FUND**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<u>Organization</u>	<u>07-01-11</u> <u>Balance</u>	<u>2011-12</u> <u>Receipts</u>	<u>2011-12</u> <u>Disbursements</u>	<u>06-30-12</u> <u>Balance</u>
Jr. Class	7,349	15,279	12,853	9,775
Cheerleaders		309	40	269
"L" Club Golf		785	785	
"L" Club	712	349	513	548
"L" Club VB	717	354	731	340
"L" Club GBB		3,145	2,859	286
"L" Club Baseball	225			225
"L" Club BBB	554	1,275	1,275	554
General	3,841	3,251	3,313	3,779
Music	4,850	13,618	11,361	7,107
Art Club	3,557	3,544	2,376	4,725
SADD	811	112	245	678
Spanish	2,982	1,320	1,320	2,982
FFA	12,194	28,576	23,606	17,164
JO Volleyball	1,120		1,120	
Yearbook	1,839	5,751	163	7,427
Jr Rebels	301		162	139
Total	<u>41,052</u>	<u>77,668</u>	<u>62,722</u>	<u>55,998</u>

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**  
**WITH LAWS AND REGULATIONS APPLICABLE TO THE**  
**STUDENT ACTIVITY FUND**


To the Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe, Minnesota for the year ended June 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Manual For Activity Fund Accounting (MAFA) issued by the Minnesota Department of Children, Families, and Learning, pursuant to Minnesota Statutes Section 123.38.

The Manual For Activity Fund Accounting provides uniform financial accounting and reporting standards for student activities. Compliance with the manual is the responsibility of the District's management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that for the items tested, the District has complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the District had not complied with such legal provisions.

This report is intended solely for the information and use of the Board of Education, management and students of Independent School District No. 403, Ivanhoe, Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

  
Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants

November 8, 2012

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**I. Financial Statement Audit-Internal Controls**

**Previously Reported Items Not Resolved**

*2012-I          Lack of Segregation of Duties*

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

**Corrective Action Plan (CAP)**

**Evaluation of disagreement with audit findings:**

There is no disagreement with the audit findings.

**Actions planned in response to the finding:**

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

**Official responsible for Ensuring CAP:**

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

**Planned completion date for CAP:**

December 20, 2012

**Plan to monitor completion of CAP:**

The Superintendent and Board of Education will monitor the internal control system.

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**I. Financial Statement Audit-Internal Controls-continued**  
**Previously Reported Items Not Resolved-continued**  
*2012-II GAAP Financial Statements*

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 20, 2012

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.