

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**Minnetrista, Minnesota**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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**INDEPENDENT SCHOOL DISTRICT NO. 277**

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**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**BOARD OF EDUCATION AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

| <u>Board of Education</u> | <u>Position</u>                                    | <u>Term Expires</u> |
|---------------------------|--|---------------------|
| David Botts               | Chairperson  | January 1, 2016     |
| Ann Bremer                | Vice Chairperson                                   | January 1, 2016     |
| Ralph Harrison            | Treasurer  | January 1, 2016     |
| Keith Foerster            | Director   | January 1, 2014     |
| David Bond                | Director   | January 1, 2016     |
| Margie Saatzer            | Director   | January 1, 2014     |
| Gary Wollner              | Director   | January 1, 2014     |
| <u>Administration</u>     |  |                     |
| Kevin Borg                | Superintendent                                     |                     |
| Mark Femrite              | Assistant Superintendent for Teaching and Learning |                     |
| Megan Berberick           | Director of Finance                                |                     |
| Joel Dahl                 | Director of Community Education                    |                     |
| Cory Wolf                 | Technology Coordinator                             |                     |
| Meredith Boo              | Director of Special Services                       |                     |
| Keith Randklev            | Principal - Mound Westonka High School             |                     |
| Christy Zachow            | Principal - Grandview Middle School                |                     |
| Ann Swanson               | Principal - Shirley Hills Primary                  |                     |
| Nancy Benz                | Principal - Hilltop Primary                        |                     |



*Expert advice. When you need it.<sup>SM</sup>*

## **INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Independent School District No. 277  
Minnetrista, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 63**

As discussed in Note 12 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements.

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



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KERN, DEWENTER, VIERE, LTD.  
Bloomington Minnesota  
September 23, 2013

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

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

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

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

The financial statements also include notes that explain some of the information in the statements and provide data with more detail.

#### **District-Wide Statements**

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

The two government-wide statements report the District's net position and how it has changed. Net position, 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 position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.



**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**Fund Financial Statements**

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

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

The District has three kinds of funds:

**Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds Statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on the Governmental Funds Statements that explain the relationship (or differences) between them.

**Proprietary Funds** – These funds present short and long-term financial information about the activities the District operates like a business, such as retiree severance funds.

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position** – The District's combined net position was \$ 13,659,090 on June 30, 2013.

**Table 1**  
**Statement of Net Position**  
**Governmental Activities**

|                                  | 2012                 | 2013                 | Percentage<br>Change<br>2012-2013 |
|----------------------------------|----------------------|----------------------|-----------------------------------|
| <b>ASSETS</b>                    |                      |                      |                                   |
| Current and Other Assets         | \$ 52,101,973        | \$ 46,361,314        | -11.0%                            |
| Capital Assets                   | 7,635,946            | 11,538,366           | 51.1%                             |
| Total Assets                     | <u>\$ 59,737,919</u> | <u>\$ 57,899,680</u> | -3.1%                             |
| <b>LIABILITIES</b>               |                      |                      |                                   |
| Long-Term Liabilities            | \$ 33,043,240        | \$ 30,764,099        | -6.9%                             |
| Other Liabilities                | 15,675,880           | 13,476,491           | -14.0%                            |
| Total Liabilities                | <u>\$ 48,719,120</u> | <u>\$ 44,240,590</u> | -9.2%                             |
| <b>NET POSITION</b>              |                      |                      |                                   |
| Net Investment in Capital Assets | \$ 5,389,694         | \$ 7,275,288         | 35.0%                             |
| Restricted                       | 892,828              | 1,306,111            | 46.3%                             |
| Unrestricted                     | 4,736,277            | 5,077,691            | 7.2%                              |
| Total Net Position               | <u>\$ 11,018,799</u> | <u>\$ 13,659,090</u> | 24.0%                             |

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

A summary of the revenue and expenses is presented in Table 2.

**Table 2**  
**Change in Net Position**

|                                      | 2012                        | 2013                        | Percentage<br>Change<br>2012-2013 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------------|
| <b>REVENUES</b>                      |                             |                             |                                   |
| Program Revenues:                    |                             |                             |                                   |
| Charges for Services                 | \$ 3,242,919                | \$ 3,613,169                | 11.4%                             |
| Operating Grants and Contributions   | 4,315,218                   | 4,794,430                   | 11.1%                             |
| Capital Grants and Contributions     | 10,686                      | 2,149                       | -80.0%                            |
| General Revenues:                    |                             |                             |                                   |
| Property Taxes                       | 8,642,830                   | 10,633,972                  | 23.0%                             |
| State Aid - Formula Grants           | 12,934,516                  | 13,291,964                  | 2.8%                              |
| Other                                | 779,860                     | 335,378                     | -57.0%                            |
| Total Revenues                       | <u>29,926,029</u>           | <u>32,671,062</u>           | 9.2%                              |
| <b>EXPENSES</b>                      |                             |                             |                                   |
| Administration                       | 839,873                     | 961,789                     | 14.5%                             |
| District Support Services            | 839,278                     | 1,040,703                   | 24.0%                             |
| Elementary and Secondary Regular     |                             |                             |                                   |
| Instruction                          | 12,208,403                  | 12,782,669                  | 4.7%                              |
| Vocational Education Instruction     | 151,423                     | 184,599                     | 21.9%                             |
| Special Education Instruction        | 4,247,270                   | 4,171,164                   | -1.8%                             |
| Community Education and Services     | 2,422,247                   | 2,636,457                   | 8.8%                              |
| Instructional Support Services       | 1,025,147                   | 1,079,643                   | 5.3%                              |
| Pupil Support Services               | 2,210,224                   | 2,167,327                   | -1.9%                             |
| Sites, Buildings and Equipment       | 2,526,392                   | 2,928,926                   | 15.9%                             |
| Fiscal and Other Fixed Cost Programs | 65,788                      | 84,071                      | 27.8%                             |
| Food Service                         | 1,223,935                   | 1,232,348                   | 0.7%                              |
| Interest on Long-Term Debt           | 443,759                     | 761,075                     | 71.5%                             |
| Total Expenses                       | <u>28,203,739</u>           | <u>30,030,771</u>           | 6.5%                              |
| Increase in Net Position             | <u>1,722,290</u>            | <u>2,640,291</u>            | 53.3%                             |
| End of Year Net Position             | <u><u>\$ 11,018,799</u></u> | <u><u>\$ 13,659,090</u></u> | 24.0%                             |

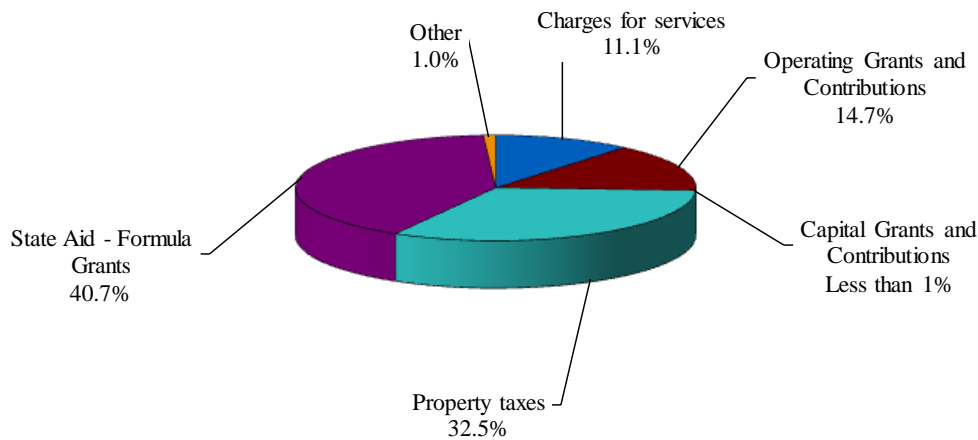
**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Changes in Net Position** – The District's total revenues were \$ 32,671,062 for the year ended June 30, 2013. Property taxes and state formula aid accounted for 73.2% of total revenue for the year (see Figure A). Another 1% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total revenues surpassed expenses, increasing net position \$ 2,640,291 over last year.

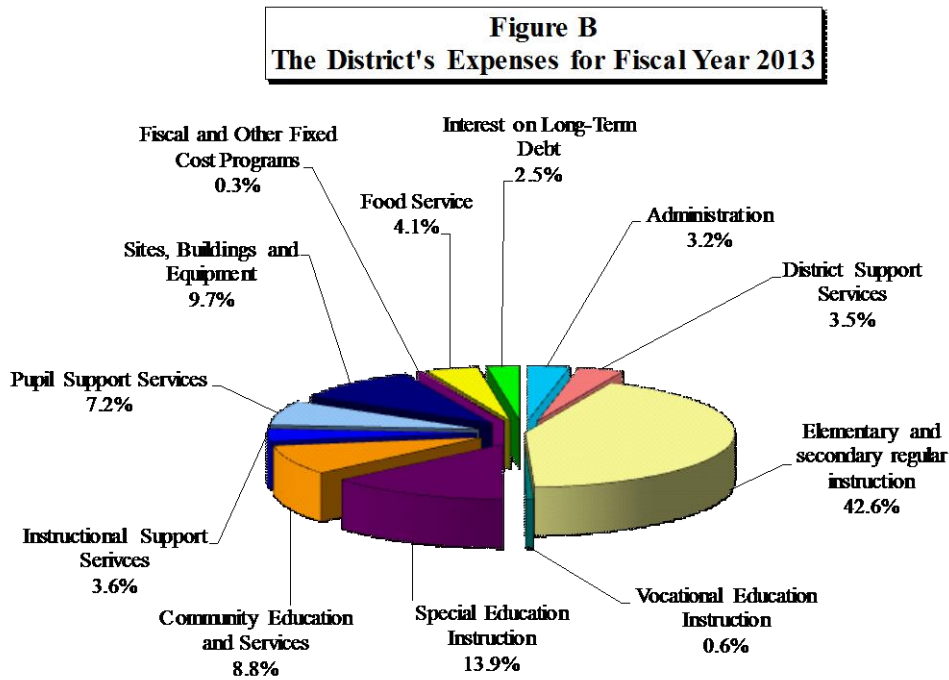
**Figure A**  
**Sources of the District's Revenues for Fiscal Year 2013**



The total cost of all programs and services was \$ 30,030,771. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs and instructional and pupil support) were 67.9% of expenses incurred; see Figure B. The purely administrative activities of the District accounted for just 3.2% of total costs.

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**



**Table 3**  
**Net Cost of Governmental Activities**

|  | Total Cost of Services |                      | Percentage          | Net Cost of Services |                      | Percentage          |
|--|------------------------|----------------------|---------------------|----------------------|----------------------|---------------------|
|  | 2012                   | 2013                 | Change<br>2012-2013 | 2012                 | 2013                 | Change<br>2012-2013 |
| Administration                               | \$ 839,873             | \$ 961,789           | 14.5%               | \$ 839,873           | \$ 961,789           | 14.5%               |
| District Support Services                    | 839,278                | 1,040,703            | 24.0%               | 839,278              | 1,040,703            | 24.0%               |
| Elementary and Secondary Regular Instruction | 12,208,403             | 12,782,669           | 4.7%                | 10,587,232           | 10,500,403           | -0.8%               |
| Vocational Education Instruction             | 151,423                | 184,599              | 21.9%               | 142,126              | 175,124              | 23.2%               |
| Special Education Instruction                | 4,247,270              | 4,171,164            | -1.8%               | 1,702,644            | 1,568,360            | -7.9%               |
| Community Education and Services             | 2,422,247              | 2,636,457            | 8.8%                | 344,324              | 453,343              | 31.7%               |
| Instructional Support Services               | 1,025,147              | 1,079,643            | 5.3%                | 997,464              | 1,049,166            | 5.2%                |
| Pupil Support Services                       | 2,210,224              | 2,167,327            | -1.9%               | 2,161,652            | 2,103,869            | -2.7%               |
| Sites, Buildings and Equipment               | 2,526,392              | 2,928,926            | 15.9%               | 2,525,706            | 2,926,777            | 15.9%               |
| Fiscal and Other Fixed Cost Programs         | 65,788                 | 84,071               | 27.8%               | 65,788               | 84,071               | 27.8%               |
| Food Service                                 | 1,223,935              | 1,232,348            | 0.7%                | (14,930)             | (3,657)              | -75.5%              |
| Interest on Long-Term Debt                   | 443,759                | 761,075              | 71.5%               | 443,759              | 761,075              | 71.5%               |
| <b>Total</b>                                 | <b>\$ 28,203,739</b>   | <b>\$ 30,030,771</b> | <b>6.5%</b>         | <b>\$ 20,634,916</b> | <b>\$ 21,621,023</b> | <b>4.8%</b>         |

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

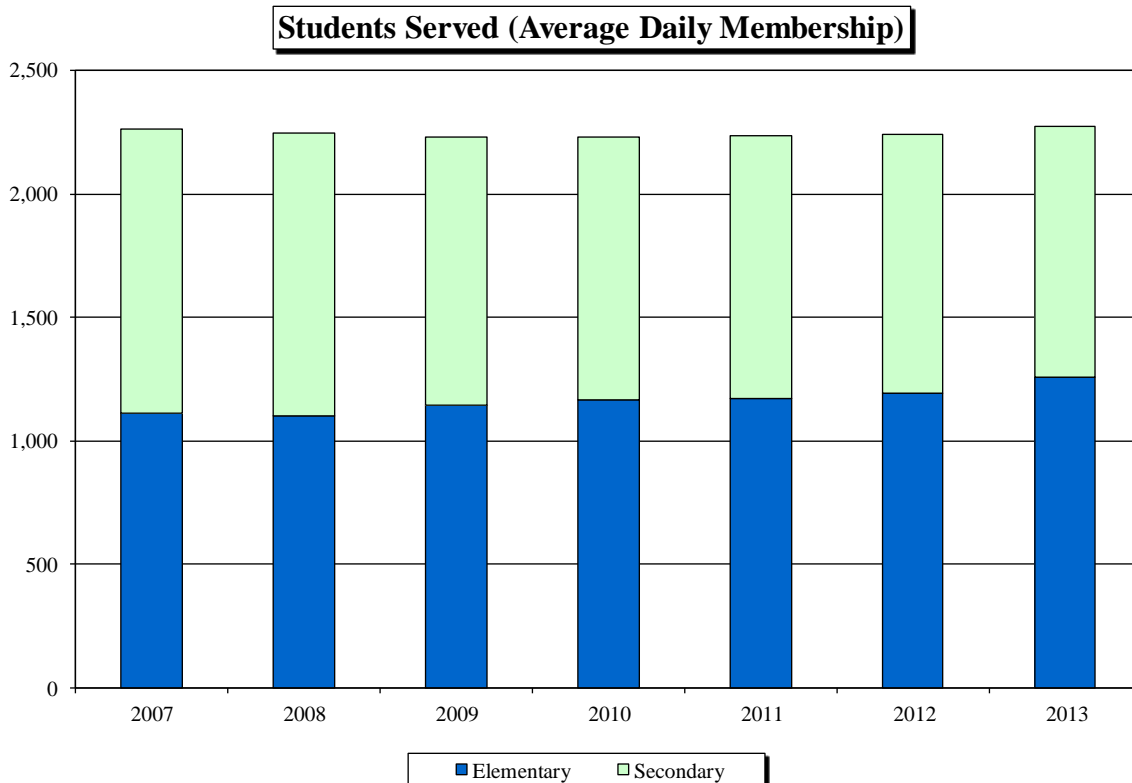
The cost of all governmental activities for 2012-13 was \$ 30,030,771.

- Some of the cost was paid by the users of the District's programs: \$ 3,613,169.
- The federal and state governments subsidized certain programs with grants and contributions: \$ 4,796,579.
- Most of the District's costs – \$ 23,925,936 – were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$ 10,633,972 in property taxes and \$ 13,291,964 of state aid based on the statewide education aid formula. In addition, \$ 335,378 of investment earnings and other general revenues was recognized.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of \$ 31,150,362, an decrease of \$ 3,966,247 from last year's ending fund balance of \$ 35,116,609. This decrease is primarily due to the use of capital facilities bonds that were sold in 2011-12.

Revenues for the District's governmental funds were \$ 32,619,607 while total expenditures were \$ 36,587,292, resulting in a \$ 3,967,685 of expenditures over revenues. The following graph shows the number of students served by the District:



**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

During 2012-13, the District's total enrollment increased from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served a couple more students than projected in the budget.

**GENERAL FUND**

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

The following schedule presents a summary of General Fund Revenues:

|                 | <u>Year Ended</u><br><u>June 30, 2012</u> | <u>Year Ended</u><br><u>June 30, 2013</u> | <u>Percentage</u><br><u>Change</u><br><u>2012-2013</u> |
|-----------------|---|---|--|
| Local Sources:  |   |   |  |
| Property Taxes  | \$ 6,636,761                              | \$ 6,795,698                              | 2.4%   |
| Other           | 869,058                                   | 1,227,224                                 | 41.2%  |
| State Sources   | 15,745,514                                | 16,443,066                                | 4.4%   |
| Federal Sources | 928,066                                   | 829,015                                   | -10.7%   |
| Total           | <u>\$ 24,179,399</u>                      | <u>\$ 25,295,003</u>                      | 4.6%   |

Total General Fund revenue increased by \$ 1,115,604, or 4.6%, from the previous year. This is primarily due to an increase in the state aid formula and an increase of 34 students over the prior year, as well as moving the student activity funds to the General Fund under board control.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

|                                      | <u>Year Ended</u><br><u>June 30, 2012</u> | <u>Year Ended</u><br><u>June 30, 2013</u> | <u>Percentage</u><br><u>Change</u><br><u>2011-2012</u> |
|--------------------------------------|---|---|--|
| Salaries                             | \$ 13,298,844                             | \$ 13,766,861                             | 3.5%   |
| Benefits                             | 4,056,672                                 | 4,383,698                                 | 8.1%   |
| Purchased Services                   | 4,270,693                                 | 4,533,819                                 | 6.2%   |
| Supplies, Materials and<br>Equipment | 1,907,616                                 | 1,955,526                                 | 2.5%   |
| Other Expenses                       | 211,959                                   | 246,758                                   | 16.4%  |
| Total                                | <u>\$ 23,745,784</u>                      | <u>\$ 24,886,662</u>                      | 4.8%   |

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**GENERAL FUND**

Total General Fund expenditures increased \$ 1,140,878, or 4.8%, from the previous year primarily due to increases in wages and benefits and general inflation of purchased services, as well as bringing the student activity funds under board control in the General Fund.

In 2012-2013, General Fund expenditures were less than revenues by \$ 408,341.

After deducting statutory reserves, the unassigned fund balance was \$ 3,187,708 at June 30, 2012. The unassigned fund balance is \$ 3,452,883 at June 30, 2013.

Statutory reserves/restrictions in the General Fund for deferred maintenance, health and safety and operating capital had a deficit total of \$ 239,725 at June 30, 2013, primarily due to a deficit health and safety fund balance in the amount of \$ 449,679.

**General Fund Budget Highlights**

Over the course of the year, the District revised the annual operating budget. Budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale and gifts.
- Increases in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$ 7,907 the actual results for the year show a positive variance of \$ 408,341.

- Actual revenues were \$ 413,918 greater than expected, a 1.7% variance.
- The actual expenditures were \$ 13,484 greater than budgeted, less than a 0.1% variance.

**COMMUNITY SERVICE AND DEBT SERVICE FUNDS**

The Community Service Fund experienced a current year fund balance decrease of \$ 2,931 due to increased expenditures over the amount of program revenues. The Community Service fund balance was \$ 549,986 as of June 30, 2013. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund expenditures exceeded revenues by \$ 388,435 in 2012-2013, due to a fund balance excess adjustment that was refunded to taxpayers. There was also a one-time transfer in of \$ 592,768 from the construction fund to pay debt service obligations as set forth in the bond sale documents. The remaining fund balance of \$ 448,465 at June 30, 2013 is available for meeting future debt service obligations.



**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**NONMAJOR FUNDS**

The Food Service Fund had negative operations of \$ 942 due to changes in meal regulations, and has a restricted fund balance of \$ 158,079 and nonspendable fund balance of \$ 13,562 on June 30, 2013. This balance will be used to offset future operating losses and to fund equipment improvements.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2013, the District had invested \$ 31,773,959 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was \$ 398,848. More detailed information can be found in Note 5 of the financial statements.

**Table 4**  
**Capital Assets - Governmental Activities**

|                               | 2012         | 2013          | Total Percent<br>Change<br>2012-13 |
|-------------------------------|--------------|---------------|------------------------------------|
| Land                          | \$ 1,645,835 | \$ 1,645,835  | 0.0%                               |
| Construction in Progress      | -            | 3,924,024     | 100.0%                             |
| Land Improvements             | 2,181,394    | 2,321,252     | 6.4%                               |
| Buildings                     | 15,933,963   | 16,020,968    | 0.5%                               |
| Furniture and Equipment       | 7,755,382    | 7,787,445     | 0.4%                               |
| Vehicles                      | 74,435       | 74,435        | 0.0%                               |
| Less Accumulated Depreciation | (19,955,063) | (20,235,593)  | 1.4%                               |
| Total                         | \$ 7,635,946 | \$ 11,538,366 | 51.1%                              |

**Debt Administration**

On March 1, 1994, the District issued General Obligation (G.O.) School Building Bonds for school improvements totaling \$ 14,700,000. Due to favorable market conditions and interest rates, during fiscal year 2003, the District issued G.O. School Building Refunding Bonds, Series 2003B to defease the 1994 School Building Bonds. On March 1, 2012, the District refunded the Series 2003B bonds and issued G.O. School Building Refunding Bonds, Series 2012B. This refunding will result in savings in the cost of interest over the remaining life of the Bonds.

On March 1, 2012, the district issued \$ 29,925,000 G.O. School Building Bonds, Series 2012A as a result of voters approving a capital facilities improvement plan in November, 2011.

At June 30, 2013, the District had bonded debt obligations of \$ 32,295,000. The state limits the amount of G.O. debt the District can issue to 15% of the taxable market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit, which is currently \$ 427,575,822. The District is within its legal authority for bonded debt.

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Long-Term Liabilities**

At year-end, the District had \$ 32,405,596 in G.O. bonds and capital leases payable outstanding, a decrease of 8.5% from last year, as shown in Table 5. The District also had \$ 32,891 in compensated absences payable at June 30, 2013. Total long-term liability decreased by 8.5%. More detailed information can be found in Note 7 of the financial statements.

**Table 5**  
**Outstanding Long-Term Liabilities**

|                        | 2012          | 2013          | Total Percent<br>Change<br>2012-2013 |
|------------------------|---------------|---------------|--------------------------------------|
| G.O. Bonds Payable     | \$ 35,280,000 | \$ 32,295,000 | -8.5%                                |
| Capital Leases Payable | 156,422       | 110,596       | -29.3%                               |
| Compensated Absences   | 26,782        | 32,891        | 22.8%                                |
| Total                  | \$ 35,463,204 | \$ 32,438,487 | -8.5%                                |

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

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

The State Legislature approved no change in the formula allowance for fiscal years 2009-2010 and 2010-2011. With \$ 50 per pupil increase in the general education funding formula for 2011-2012 and a 6% shift in payments to 64% of revenue received in the current fiscal year and 36% in the following year. In 2012-2013 the district experienced an additional \$ 50 per pupil increase in the general education funding formula and the addition of Literacy Incentive aid. The payment metering shifted to 86% paid in the current fiscal year and the remaining 14% in the following fiscal year. The 2013 legislative session ended with many changes to future pupil weighting as well as changes in the levy for future years. The District will strive to maximize resources available through efficient and effective management of its operations.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

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## **BASIC FINANCIAL STATEMENTS**

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**STATEMENT OF NET POSITION  
June 30, 2013**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS</b>   |                                    |
| Cash and Investments  | \$ 37,695,397                      |
| Current Property Taxes Receivable                           | 5,054,719                          |
| Delinquent Property Taxes Receivable                        | 187,134                            |
| Accounts Receivable   | 76,958                             |
| Interest Receivable   | 113,178                            |
| Due from Department of Education                            | 2,449,105                          |
| Due from Federal Government through Department of Education | 434,733                            |
| Due from Other Minnesota School Districts                   | 59,728                             |
| Property Tax Shift Adjustment                               | 24,015                             |
| Inventory   | 58,932                             |
| Prepaid Items   | 117,408                            |
| Deferred Charges  | 90,007                             |
| Capital Assets:   |                                    |
| Land  | 1,645,835                          |
| Construction In Progress                                    | 3,924,024                          |
| Land Improvements   | 2,321,252                          |
| Buildings   | 16,020,968                         |
| Equipment   | 7,787,445                          |
| Vehicles  | 74,435                             |
| Less Accumulated Depreciation                               | <u>(20,235,593)</u>                |
| <br>Total Assets  | <br><u><u>\$ 57,899,680</u></u>    |
| <b>LIABILITIES AND NET POSITION</b>                         |                                    |
| <b>Liabilities</b>  |                                    |
| Accounts Payable  | \$ 3,385,363                       |
| Salaries and Benefits Payable                               | 285,324                            |
| Interest Payable  | 318,494                            |
| Due to Other Minnesota School Districts                     | 253,158                            |
| Unearned Revenue  | 529,946                            |
| Property Taxes Levied for Subsequent Year's Expenditures    | 6,373,860                          |
| Bond Principal Payable (Net):                               |                                    |
| Payable Within One Year                                     | 2,255,000                          |
| Payable After One Year                                      | 30,613,026                         |
| Capital Lease Payable:                                      |                                    |
| Payable Within One Year                                     | 49,034                             |
| Payable After One Year                                      | 61,562                             |
| Compensated Absences Payable:                               |                                    |
| Payable Within One Year                                     | 26,312                             |
| Payable After One Year                                      | 6,579                              |
| Net Other Post Employment Benefits (OPEB) Payable           | <u>82,932</u>                      |
| Total Liabilities   | <u><u>44,240,590</u></u>           |
| <b>Net Position</b>   |                                    |
| Net Investment in Capital Assets                            | 7,275,288                          |
| Restricted  | 1,306,111                          |
| Unrestricted  | <u>5,077,691</u>                   |
| Total Net Position  | <u><u>13,659,090</u></u>           |
| <br>Total Liabilities and Net Position                      | <br><u><u>\$ 57,899,680</u></u>    |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

| Functions/Programs                            | Expenses             | Program Revenues        |  |  | Net (Expense)<br>Revenues and<br>Changes in<br>Net Position |
|---|----------------------|-------------------------|--|--|---|
|   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital Grants<br>and<br>Contributions | Governmental<br>Activities                                  |
| <b>Governmental Activities</b>                |                      |                         |  |  |   |
| Administration                                | \$ 961,789           | \$ -                    | \$ -                                     | \$ -                                   | \$ (961,789)  |
| District Support Services                     | 1,040,703            | -                       | -  | -                                      | (1,040,703)   |
| Elementary and Secondary Regular Instruction  | 12,782,669           | 706,102                 | 1,576,164                                | -                                      | (10,500,403)  |
| Vocational Education Instruction              | 184,599              | -                       | 9,475                                    | -                                      | (175,124)   |
| Special Education Instruction                 | 4,171,164            | -                       | 2,602,804                                | -                                      | (1,568,360)   |
| Instructional Support Services                | 1,079,643            | 30,477                  | -  | -                                      | (1,049,166)   |
| Pupil Support Services                        | 2,167,327            | 13,456                  | 50,002                                   | -                                      | (2,103,869)   |
| Sites and Buildings                           | 2,928,926            | -                       | -  | 2,149                                  | (2,926,777)   |
| Fiscal and Other Fixed Cost Programs          | 84,071               | -                       | -  | -                                      | (84,071)  |
| Food Service                                  | 1,232,348            | 845,187                 | 390,818                                  | -                                      | 3,657   |
| Community Education and Services              | 2,636,457            | 2,017,947               | 165,167                                  | -                                      | (453,343)   |
| Interest and Fiscal Charges on Long-Term Debt | 761,075              | -                       | -  | -                                      | (761,075)   |
|   | <u>\$ 30,030,771</u> | <u>\$ 3,613,169</u>     | <u>\$ 4,794,430</u>                      | <u>\$ 2,149</u>                        | (21,621,023)  |
| <b>General Revenues</b>                       |                      |                         |  |  |   |
| Taxes:  |                      |                         |  |  |   |
|   |                      |                         |  |  | 6,791,133   |
|   |                      |                         |  |  | 444,387   |
|   |                      |                         |  |  | 3,398,452   |
|   |                      |                         |  |  | 13,291,964  |
|   |                      |                         |  |  | 208,044   |
|   |                      |                         |  |  | 125,896   |
|   |                      |                         |  |  | 1,438   |
|   |                      |                         |  |  | <u>24,261,314</u>   |
|   |                      |                         |  |  | 2,640,291   |
|   |                      |                         |  |  | <u>11,018,799</u>   |
|   |                      |                         |  |  | <u>\$ 13,659,090</u>  |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2013**

|  | <u>General</u>              | <u>Debt Service</u>         | <u>Community<br/>Service</u> |
|--|-----------------------------|-----------------------------|------------------------------|
| <b>ASSETS</b>  |                             |                             |                              |
| Cash and Investments   | \$ 1,257,561                | \$ 1,722,636                | \$ 1,072,837                 |
| Current Property Taxes Receivable                              | 3,256,600                   | 1,282,075                   | 226,561                      |
| Delinquent Property Taxes Receivable                           | 126,378                     | 41,639                      | 7,849                        |
| Accounts Receivable  | 39,506                      | -                           | 36,759                       |
| Interest Receivable  | 1,496                       | -                           | -                            |
| Due from Department of Education                               | 2,438,793                   | 118                         | 10,169                       |
| Due from Federal Government<br>through Department of Education | 434,733                     | -                           | -                            |
| Due from Other Minnesota School Districts                      | 59,728                      | -                           | -                            |
| Due from Other Funds   | 247,063                     | -                           | 5,406                        |
| Property Tax Shift Adjustment                                  | 24,015                      | -                           | -                            |
| Inventory  | 46,874                      | -                           | -                            |
| Prepaid Items  | 114,749                     | -                           | 1,155                        |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u>  |
| Total Assets   | <u>\$ 8,047,496</u>         | <u>\$ 3,046,468</u>         | <u>\$ 1,360,736</u>          |
| <b>LIABILITIES AND FUND BALANCES</b>                           |                             |                             |                              |
| <b>Liabilities</b>   |                             |                             |                              |
| Accounts Payable   | \$ 429,872                  | \$ -                        | \$ 62,397                    |
| Salaries and Benefits Payable                                  | 237,465                     | -                           | 43,003                       |
| Due to Other Minnesota<br>School Districts                     | 253,158                     | -                           | -                            |
| Deferred Revenue   | 103,278                     | 21,893                      | 471,273                      |
| Property Taxes Levied for<br>Subsequent Year's Expenditures    | 2,982,006                   | 2,576,110                   | 234,077                      |
| Total Liabilities  | <u>4,005,779</u>            | <u>2,598,003</u>            | <u>810,750</u>               |
| <b>Fund Balances</b>   |                             |                             |                              |
| Nonspendable   | 161,623                     | -                           | 1,155                        |
| Restricted   | (239,725)                   | 448,465                     | 548,831                      |
| Committed  | 159,199                     | -                           | -                            |
| Assigned   | 507,737                     | -                           | -                            |
| Unassigned   | 3,452,883                   | -                           | -                            |
| Total Fund Balances  | <u>4,041,717</u>            | <u>448,465</u>              | <u>549,986</u>               |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u>  |
| Total Liabilities and<br>Fund Balances                         | <u>\$ 8,047,496</u>         | <u>\$ 3,046,468</u>         | <u>\$ 1,360,736</u>          |

| <u>Building<br/>Construction</u> | <u>Nonmajor<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|----------------------------------|---------------------------|---|
| \$ 28,682,423                    | \$ 579,967                | \$ 33,315,424                           |
| -                                | 289,483                   | 5,054,719                               |
| -                                | 11,268                    | 187,134                                 |
| -                                | 693                       | 76,958                                  |
| 59,403                           | -                         | 60,899                                  |
| -                                | 25                        | 2,449,105                               |
| -                                | -                         | 434,733                                 |
| -                                | -                         | 59,728                                  |
| -                                | -                         | 252,469                                 |
| -                                | -                         | 24,015                                  |
| -                                | 12,058                    | 58,932                                  |
| -                                | 1,504                     | 117,408                                 |
| <u>\$ 28,741,826</u>             | <u>\$ 894,998</u>         | <u>\$ 42,091,524</u>                    |
| <br>                             |                           |   |
| \$ 2,887,393                     | \$ 5,701                  | \$ 3,385,363                            |
| -                                | 4,856                     | 285,324                                 |
| -                                | -                         | 253,158                                 |
| -                                | 47,013                    | 643,457                                 |
| -                                | 581,667                   | 6,373,860                               |
| <u>2,887,393</u>                 | <u>639,237</u>            | <u>10,941,162</u>                       |
| <br>                             |                           |   |
| -                                | 13,562                    | 176,340                                 |
| 25,854,433                       | 242,199                   | 26,854,203                              |
| -                                | -                         | 159,199                                 |
| -                                | -                         | 507,737                                 |
| -                                | -                         | 3,452,883                               |
| <u>25,854,433</u>                | <u>255,761</u>            | <u>31,150,362</u>                       |
| <br>                             |                           |   |
| <u>\$ 28,741,826</u>             | <u>\$ 894,998</u>         | <u>\$ 42,091,524</u>                    |



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**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

Total Fund Balances - Governmental Funds \$ 31,150,362

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

|                               |              |
|-------------------------------|--------------|
| Cost of Capital Assets        | 31,773,959   |
| Less Accumulated Depreciation | (20,235,593) |

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

|                              |              |
|------------------------------|--------------|
| Bond Principal Payable       | (32,295,000) |
| Capital Lease Payable        | (110,596)    |
| Compensated Absences Payable | (32,891)     |

Bond premiums are reported as a liability within the Statement of Net Position and are reported as an other financing source in the year the debt is issued in governmental funds.

(573,026)

Bond issuance costs are reported as an asset within the Statement of Net Position and are reported as an expenditure in the year the debt is issued in the governmental funds.

90,007

Net OPEB liability is not recognized in governmental funds.

(82,932)

Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

113,511

The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.

4,179,783

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

(318,494)

Total Net Position - Governmental Activities

\$ 13,659,090

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

|   | <u>General</u>      | <u>Debt Service</u> | <u>Community<br/>Service</u> |
|---|---------------------|---------------------|------------------------------|
| <b>REVENUES</b>                                 |                     |                     |                              |
| Local Property Taxes                            | \$ 6,795,698        | \$ 2,815,756        | \$ 444,556                   |
| Other Local and County Revenues                 | 1,137,615           | 555                 | 2,039,003                    |
| Revenue from State Sources                      | 16,443,066          | 871                 | 136,465                      |
| Revenue from Federal Sources                    | 829,015             | -                   | -                            |
| Sales and Other Conversion of Assets            | 89,609              | -                   | -                            |
| Total Revenues                                  | <u>25,295,003</u>   | <u>2,817,182</u>    | <u>2,620,024</u>             |
| <b>EXPENDITURES</b>                             |                     |                     |                              |
| <b>Current</b>                                  |                     |                     |                              |
| Administration                                  | 952,851             | -                   | -                            |
| District Support Services                       | 868,414             | -                   | -                            |
| Elementary and Secondary Regular Instruction    | 12,143,209          | -                   | -                            |
| Vocational Education Instruction                | 183,929             | -                   | -                            |
| Special Education Instruction                   | 4,123,374           | -                   | -                            |
| Instructional Support Services                  | 1,060,130           | -                   | -                            |
| Pupil Support Services                          | 2,156,001           | -                   | -                            |
| Sites and Buildings                             | 2,427,919           | -                   | -                            |
| Fiscal and Other Fixed Cost Programs            | 84,071              | -                   | -                            |
| Food Service                                    | -                   | -                   | -                            |
| Community Education and Services                | -                   | -                   | 2,587,800                    |
| <b>Capital Outlay</b>                           |                     |                     |                              |
| District Support Services                       | 127,529             | -                   | -                            |
| Elementary and Secondary Regular Instruction    | 369,158             | -                   | -                            |
| Special Education Instruction                   | 7,850               | -                   | -                            |
| Instructional Support Services                  | 1,066               | -                   | -                            |
| Pupil Support Services                          | 1,898               | -                   | -                            |
| Sites and Buildings                             | 379,263             | -                   | -                            |
| Food Service                                    | -                   | -                   | -                            |
| Community Education and Services                | -                   | -                   | 35,155                       |
| <b>Debt Service</b>                             |                     |                     |                              |
| Principal                                       | -                   | 2,565,000           | -                            |
| Interest and Fiscal Charges                     | -                   | 640,617             | -                            |
| Total Expenditures                              | <u>24,886,662</u>   | <u>3,205,617</u>    | <u>2,622,955</u>             |
| Excess of Revenues Over<br>(Under) Expenditures | 408,341             | (388,435)           | (2,931)                      |
| <b>OTHER FINANCING SOURCES (USES)</b>           |                     |                     |                              |
| Proceeds from Sale of Capital Assets            | -                   | -                   | -                            |
| Transfers In                                    | -                   | 592,768             | -                            |
| Transfers Out                                   | -                   | -                   | -                            |
| Total Other Financing Sources (Uses)            | <u>-</u>            | <u>592,768</u>      | <u>-</u>                     |
| Net Change in Fund Balances                     | 408,341             | 204,333             | (2,931)                      |
| <b>FUND BALANCES</b>                            |                     |                     |                              |
| <b>Beginning of Year</b>                        | <u>3,633,376</u>    | <u>244,132</u>      | <u>552,917</u>               |
| <b>End of Year</b>                              | <u>\$ 4,041,717</u> | <u>\$ 448,465</u>   | <u>\$ 549,986</u>            |

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

| Building<br>Construction | Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------|-------------------|--------------------------------|
| \$ -                     | \$ 572,589        | \$ 10,628,599                  |
| 75,106                   | 3,520             | 3,255,799                      |
| -                        | 36,410            | 16,616,812                     |
| -                        | 354,586           | 1,183,601                      |
| -                        | 845,187           | 934,796                        |
| <u>75,106</u>            | <u>1,812,292</u>  | <u>32,619,607</u>              |
| -                        | -                 | 952,851                        |
| -                        | -                 | 868,414                        |
| -                        | -                 | 12,143,209                     |
| -                        | -                 | 183,929                        |
| -                        | -                 | 4,123,374                      |
| -                        | -                 | 1,060,130                      |
| -                        | -                 | 2,156,001                      |
| -                        | -                 | 2,427,919                      |
| -                        | -                 | 84,071                         |
| -                        | 1,210,246         | 1,210,246                      |
| -                        | -                 | 2,587,800                      |
| -                        | -                 | 127,529                        |
| -                        | -                 | 369,158                        |
| -                        | -                 | 7,850                          |
| -                        | -                 | 1,066                          |
| -                        | -                 | 1,898                          |
| 4,084,317                | -                 | 4,463,580                      |
| -                        | 30,221            | 30,221                         |
| -                        | -                 | 35,155                         |
| -                        | 420,000           | 2,985,000                      |
| -                        | 127,274           | 767,891                        |
| <u>4,084,317</u>         | <u>1,787,741</u>  | <u>36,587,292</u>              |
| (4,009,211)              | 24,551            | (3,967,685)                    |
| -                        | 1,438             | 1,438                          |
| -                        | -                 | 592,768                        |
| (592,768)                | -                 | (592,768)                      |
| <u>(592,768)</u>         | <u>1,438</u>      | <u>1,438</u>                   |
| (4,601,979)              | 25,989            | (3,966,247)                    |
| <u>30,456,412</u>        | <u>229,772</u>    | <u>35,116,609</u>              |
| <u>\$ 25,854,433</u>     | <u>\$ 255,761</u> | <u>\$ 31,150,362</u>           |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

Net Change in Fund Balances - Total Governmental Funds \$ (3,966,247)

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

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

|                      |           |
|----------------------|-----------|
| Capital Outlays      | 4,340,539 |
| Depreciation Expense | (398,848) |
| Loss on Disposal     | (39,271)  |

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (6,109)

OPEB obligations are recognized as paid in the governmental funds, but the change in the unfunded OPEB obligation is recognized in the Statement of Activities. (124,713)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities. 3,030,826

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (36,892)

Governmental funds report the effect of issuance costs as expenditures when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. (15,586)

Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond. 59,294

The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities. (208,075)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 5,373

Change in Net Position - Governmental Activities \$ 2,640,291

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

|   | Budgeted Amounts  |                   | Actual<br>Amounts   | Variance with<br>Final Budget -<br>Over (Under) |
|---|-------------------|-------------------|---------------------|---|
|   | Original          | Final             |                     |   |
| <b>REVENUES</b>                                 |                   |                   |                     |   |
| Local Property Taxes                            | \$ 6,822,285      | \$ 6,822,285      | \$ 6,795,698        | \$ (26,587)                                     |
| Other Local and County Revenues                 | 475,786           | 703,436           | 1,137,615           | 434,179   |
| Revenue from State Sources                      | 16,521,219        | 16,444,904        | 16,443,066          | (1,838)   |
| Revenue from Federal Sources                    | 726,595           | 844,932           | 829,015             | (15,917)  |
| Sales and Other Conversion of Assets            | -                 | 65,528            | 89,609              | 24,081  |
| Total Revenues                                  | <u>24,545,885</u> | <u>24,881,085</u> | <u>25,295,003</u>   | <u>413,918</u>                                  |
| <b>EXPENDITURES</b>                             |                   |                   |                     |   |
| <b>Current</b>                                  |                   |                   |                     |   |
| Administration                                  | 953,166           | 921,924           | 952,851             | 30,927  |
| District Support Services                       | 692,723           | 758,981           | 868,414             | 109,433   |
| Elementary and Secondary Regular<br>Instruction | 11,527,667        | 11,982,508        | 12,143,209          | 160,701   |
| Vocational Education Instruction                | 184,792           | 164,636           | 183,929             | 19,293  |
| Special Education Instruction                   | 4,446,957         | 4,133,988         | 4,123,374           | (10,614)  |
| Instructional Support Services                  | 1,167,389         | 1,117,218         | 1,060,130           | (57,088)  |
| Pupil Support Services                          | 2,269,897         | 2,256,655         | 2,156,001           | (100,654)                                       |
| Sites and Buildings                             | 2,389,937         | 2,326,308         | 2,427,919           | 101,611   |
| Fiscal and Other Fixed Cost Programs            | 98,186            | 82,107            | 84,071              | 1,964   |
| <b>Capital Outlay</b>                           |                   |                   |                     |   |
| District Support Services                       | 208,314           | 232,785           | 127,529             | (105,256)                                       |
| Elementary and Secondary Regular<br>Instruction | 187,918           | 409,180           | 369,158             | (40,022)  |
| Vocational Education Instruction                | -                 | 1,319             | -                   | (1,319)   |
| Special Education Instruction                   | 6,272             | 12,260            | 7,850               | (4,410)   |
| Instructional Support Services                  | 14,500            | 4,500             | 1,066               | (3,434)   |
| Pupil Support Services                          | -                 | -                 | 1,898               | 1,898   |
| Sites and Buildings                             | 387,850           | 468,809           | 379,263             | (89,546)  |
| Total Expenditures                              | <u>24,535,568</u> | <u>24,873,178</u> | <u>24,886,662</u>   | <u>13,484</u>                                   |
| Net Change in Fund Balance                      | <u>\$ 10,317</u>  | <u>\$ 7,907</u>   | 408,341             | <u>\$ 400,434</u>                               |
| <b>FUND BALANCE</b>                             |                   |                   |                     |   |
| <b>Beginning of Year</b>                        |                   |                   | <u>3,633,376</u>    |   |
| <b>End of Year</b>                              |                   |                   | <u>\$ 4,041,717</u> |   |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget-<br>Over (Under) |
|---|------------------|------------------|-------------------|--|
|   | Original         | Final            |                   |  |
| <b>REVENUES</b>                                 |                  |                  |                   |  |
| Local Property Taxes                            | \$ 445,213       | \$ 445,213       | \$ 444,556        | \$ (657)                                       |
| Other Local and County Revenues                 | 1,789,402        | 1,782,902        | 2,039,003         | 256,101  |
| Revenue from State Sources                      | 173,533          | 173,533          | 136,465           | (37,068)                                       |
| Total Revenues                                  | <u>2,408,148</u> | <u>2,401,648</u> | <u>2,620,024</u>  | <u>218,376</u>                                 |
| <b>EXPENDITURES</b>                             |                  |                  |                   |  |
| <b>Current</b>                                  |                  |                  |                   |  |
| Community Education and Services                | 2,371,841        | 2,373,700        | 2,587,800         | 214,100  |
| <b>Capital Outlay</b>                           |                  |                  |                   |  |
| Community Education and Services                | 17,750           | 17,750           | 35,155            | 17,405   |
| Total Expenditures                              | <u>2,389,591</u> | <u>2,391,450</u> | <u>2,622,955</u>  | <u>231,505</u>                                 |
| Excess of Revenues Over<br>(Under) Expenditures | <u>\$ 18,557</u> | <u>\$ 10,198</u> | (2,931)           | <u>\$ (13,129)</u>                             |
| <b>FUND BALANCE</b>                             |                  |                  |                   |  |
| <b>Beginning of Year</b>                        |                  |                  | <u>552,917</u>    |  |
| <b>End of Year</b>                              |                  |                  | <u>\$ 549,986</u> |  |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**June 30, 2013**

|                                     | Governmental<br>Activities -<br>Internal Service<br>Fund |
|-------------------------------------|--|
| <b>ASSETS</b>                       |  |
| Cash and Cash Equivalents           | \$ 297,946   |
| Investments                         | 4,082,027  |
| Interest Receivable                 | 52,279   |
|                                     | <hr/>  |
| Total Assets                        | \$ 4,432,252   |
|                                     | <hr/> <hr/>  |
| <b>LIABILITIES AND NET POSITION</b> |  |
| <b>Liabilities</b>                  |  |
| Due to Other Funds                  | \$ 252,469   |
|                                     |  |
| <b>Net Position</b>                 |  |
| Unrestricted                        | 4,179,783  |
|                                     | <hr/>  |
| Total Liabilities and Net Position  | \$ 4,432,252   |
|                                     | <hr/> <hr/>  |



**INDEPENDENT SCHOOL DISTRICT NO. 277**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUND**

**For the Year Ended June 30, 2013**

|                             | Governmental<br>Activities -<br>Internal Service<br>Fund |
|-----------------------------|--|
| <b>OPERATING EXPENSES</b>   |  |
| Employee Benefits           | \$ 252,469   |
| Professional Services       | 250  |
| Total Operating Expenses    | <u>252,719</u>   |
| <b>NONOPERATING REVENUE</b> |  |
| Investment Income           | <u>44,644</u>  |
| Change in Net Position      | (208,075)  |
| <b>NET POSITION</b>         |  |
| <b>Beginning of Year</b>    | <u>4,387,858</u>   |
| <b>End of Year</b>          | <u><u>\$ 4,179,783</u></u>                               |

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
For the Year Ended June 30, 2013

|  | Governmental<br>Activities-<br>Internal Service<br>Fund |
|--|---|
| <b>CASH FLOWS - OPERATING ACTIVITIES</b>   |   |
| Cash Paid to Vendors   | \$ (250)  |
| <b>CASH FLOWS - FINANCING ACTIVITIES</b>   |   |
| Payment of Due to Other Funds  | (242,025)   |
| <b>CASH FLOWS - INVESTING ACTIVITIES</b>   |   |
| (Purchase)/Sale of Investments   | (42,854)  |
| Interest Received  | 147,845   |
| Net Cash Flows - Investing Activities  | <u>104,991</u>  |
| <b>Net Change in Cash and Cash Equivalents</b>                                       | (137,284)   |
| <b>CASH AND CASH EQUIVALENTS</b>   |   |
| <b>Beginning of Year</b>   | <u>435,230</u>  |
| <b>End of Year</b>   | <u>\$ 297,946</u>                                       |
| <b>RECONCILIATION OF OPERATING LOSS TO<br/>NET CASH FLOWS - OPERATING ACTIVITIES</b> |   |
| Operating Loss   | <u>\$ (252,719)</u>                                     |
| Adjustments to Reconcile Operating Loss<br>to Net Cash Flows - Operating Activities: |   |
| Due to Other Funds   | 252,469   |
| Net Cash Flows - Operating Activities  | <u>\$ (250)</u>   |

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2013**

|  | Private Purpose<br>Trust Fund |
|--|-------------------------------|
| <b>ASSETS</b>  |                               |
| Cash and Investments<br>(Including Cash Equivalents) | \$ 223,379                    |
| Interest Receivable                                  | 286                           |
| Total Assets   | \$ 223,665                    |
| <b>NET POSITION</b>                                  |                               |
| Held in Trust for Scholarships                       | \$ 223,665                    |

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

|                          | Private Purpose<br>Trust Fund |
|--------------------------|-------------------------------|
| <b>ADDITIONS</b>         |                               |
| Contributions            | \$ 35,639                     |
| Interest Revenue         | 639                           |
| Total Additions          | 36,278                        |
| <b>DEDUCTIONS</b>        |                               |
| Scholarships             | 28,998                        |
| Change in Net Position   | 7,280                         |
| <b>NET POSITION</b>      |                               |
| <b>Beginning of Year</b> | 216,385                       |
| <b>End of Year</b>       | \$ 223,665                    |

## INDEPENDENT SCHOOL DISTRICT NO. 277

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

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

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

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

##### A. Reporting Entity

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

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

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

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

##### B. Basic Financial Statement Information

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

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

## INDEPENDENT SCHOOL DISTRICT NO. 277

### NOTES TO THE FINANCIAL STATEMENTS June 30, 2013

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

##### **B. Basic Financial Statement Information (Continued)**

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary and 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. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**C. Measurement Focus and Basis of Accounting (Continued)**

**1. Revenue Recognition**

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

**2. Recording of Expenditures**

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

**Description of Funds:**

Major Funds:

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

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

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Building Construction Fund – Capital Projects – This Fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures. Local, state and federal revenues are received in this Fund to specifically support the food service program.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

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

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds: (Continued)**

Nonmajor Funds: (Continued)

Post Employment Benefits Debt Service Fund – This Fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

Fiduciary Fund:

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

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This Fund is used to account for the accumulation of resources to fund post employment benefits.

**D. Deposits and Investments**

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund and the Building Construction Capital Projects Fund are not pooled with the rest of the District's deposits and investments.

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

Cash and investments at June 30, 2013 were comprised of deposits, brokered certificates of deposits, government securities, a brokered savings deposit account and brokered money market accounts.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

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

**D. Deposits and Investments (Continued)**

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03.

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

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those referred to in *Minnesota Statutes* 118A.04 and 118A.05.

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

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

**E. Property Tax Receivable**

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



**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2012, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2013. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventory**

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

**H. Prepaid Items**

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

**I. Property Taxes**

The District is located in Hennepin County.

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

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

**J. Capital Assets**

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 2,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

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

**J. Capital Assets (Continued)**

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings and 5 to 20 years for equipment.

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

**K. Deferred Revenue**

Deferred revenue represents monies received prior to June 30, 2013, but earned subsequent to year-end.

**L. Long-Term Obligations**

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

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

**M. Compensated Absences**

The District compensates administration, clerical and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to 5 days for school service employees and 10 days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

## INDEPENDENT SCHOOL DISTRICT NO. 277

### NOTES TO THE FINANCIAL STATEMENTS June 30, 2013

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

##### **N. Severance**

There is one educational office employee eligible for severance after completing 20,880 hours of continuous service. This employee will receive \$ 12,000.

Food service employees are eligible for severance pay after completing 14,800 hours of continuous service. They shall receive 1 day pay for each day of unused sick leave, not to exceed 100 days.

##### **O. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2013.

##### **P. Fund Equity**

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

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- **Restricted Fund Balances** – These are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- **Assigned Fund Balances** – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- **Unassigned Fund Balances** – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- **Minimum Fund Balance Policy** – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year's expenditures and a maximum of 15% of the prior year's expenditures.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**Q. Net Position**

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

**R. Use of Estimates**

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceeded appropriations in the following Funds for the year ending June 30, 2013.

|                   | <u>Appropriations</u> | <u>Expenditures</u> |
|-------------------|-----------------------|---------------------|
| Major Funds:      |                       |                     |
| General Fund      | \$ 24,873,178         | \$ 24,886,662       |
| Debt Service      | 2,611,699             | 3,205,617           |
| Community Service | 2,391,450             | 2,622,955           |

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of June 30, 2013, the District's bank balance was not exposed to custodial credit risk because its deposit balance was fully insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2013, the District had the following deposits:

|                               |                     |
|-------------------------------|---------------------|
| Checking and Savings Accounts | \$ 7,415,955        |
| Petty Cash                    | <u>460</u>          |
| Total Deposits                | <u>\$ 7,416,415</u> |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**B. Investments**

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

| <u>Investment</u>                                   | <u>Weighted Average<br/>Maturities<br/>In Years</u> | <u>Fair<br/>Value</u> |
|---|---|-----------------------|
| Brokered Money Markets                              | N/A   | \$ 1,814,677          |
| Brokered Money Markets - OPEB                       | N/A   | 297,946               |
| Brokered Money Markets - Building Bonds             | N/A   | 353,884               |
| Negotiable Certificates of Deposit                  | 0.02  | 625,031               |
| Negotiable Certificates of Deposit - OPEB           | 0.19  | 1,296,602             |
| Negotiable Certificates of Deposit - Building Bonds | 0.52  | 17,328,796            |
| Government Securities - OPEB                        | 7.11  | 2,785,425             |
| Term Series   | 0.26  | 2,000,000             |
| Term Series - Building Bonds                        | 0.11  | 4,000,000             |
| Total   |   | <u>\$ 30,502,361</u>  |

Credit Risk: The District's investments in government securities were either rated AA+ or AAA by Standard and Poor's (S&P) or Aa2 by Moody's. The remaining investment types are unrated, therefore, not subject to credit risk.

Concentration of Credit Risk: The District's investments over 5% of the total portfolio included: Citibank CD (7.4%).

The following is a summary of deposits and investments at June 30, 2013:

|                                |                      |
|--------------------------------|----------------------|
| Deposits (Note 3.A)            | \$ 7,416,415         |
| Investments                    | <u>30,502,361</u>    |
| Total Deposits and Investments | <u>\$ 37,918,776</u> |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**B. Investments (Continued)**

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

Statement of Net Position:

|                      |               |
|----------------------|---------------|
| Cash and Investments | \$ 37,695,397 |
|----------------------|---------------|

Statement of Fiduciary Net Position:

|   |                |
|---|----------------|
| Private Purpose Trust Fund - Cash and Investments | <u>223,379</u> |
|---|----------------|

|                                |                             |
|--------------------------------|-----------------------------|
| Total Deposits and Investments | <u><u>\$ 37,918,776</u></u> |
|--------------------------------|-----------------------------|

**NOTE 4 – INTERFUND ACTIVITY**

**A. Due To/Due From Other Funds**

As of June 30, 2013, the following amounts were due to/due from other funds:

| Receivable Fund   | Payable Fund             |
|-------------------|--------------------------|
|                   | Internal Service Fund    |
| General Fund      | \$ 247,063               |
| Community Service | 5,406                    |
| Total             | <u><u>\$ 252,469</u></u> |

The amount due to the General Fund and Community Service Fund from the Internal Service Fund is to reimburse the General Fund and Community Service Fund for OPEB expenditures initially paid from those Funds.

**B. Interfund Transfers**

Transfers during the year ended June 30, 2013 were as follows:

| Receivable Fund            | Transfers In      |
|----------------------------|-------------------|
|                            | Debt Service Fund |
| Transfers Out:             |                   |
| Building Construction Fund | \$ 592,768        |

This transfer was made to move a portion of proceeds from bonds into the Debt Service Fund so it is available for future debt service payments.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 5 – CAPITAL ASSETS**

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

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|--------------------|---------------------------|
| Governmental Activities:                     |                              |                     |                    |                           |
| Capital Assets not being Depreciated:        |                              |                     |                    |                           |
| Land   | \$ 1,645,835                 | \$ -                | \$ -               | \$ 1,645,835              |
| Construction in Progress                     | -                            | 3,924,024           | -                  | 3,924,024                 |
| Total Capital Assets not being Depreciated   | <u>1,645,835</u>             | <u>3,924,024</u>    | <u>-</u>           | <u>5,569,859</u>          |
| Capital Assets being Depreciated:            |                              |                     |                    |                           |
| Land Improvements                            | 2,181,394                    | 139,858             | -                  | 2,321,252                 |
| Buildings                                    | 15,933,963                   | 87,005              | -                  | 16,020,968                |
| Equipment                                    | 7,755,382                    | 189,652             | (157,589)          | 7,787,445                 |
| Vehicles                                     | 74,435                       | -                   | -                  | 74,435                    |
| Total Capital Assets being Depreciated       | <u>25,945,174</u>            | <u>416,515</u>      | <u>(157,589)</u>   | <u>26,204,100</u>         |
| Less Accumulated Depreciation:               |                              |                     |                    |                           |
| Land Improvements                            | 1,120,347                    | 88,485              | -                  | 1,208,832                 |
| Buildings                                    | 12,364,109                   | 155,654             | -                  | 12,519,763                |
| Equipment                                    | 6,403,616                    | 154,709             | (118,318)          | 6,440,007                 |
| Vehicles                                     | 66,991                       | -                   | -                  | 66,991                    |
| Total Accumulated Depreciation               | <u>19,955,063</u>            | <u>398,848</u>      | <u>(118,318)</u>   | <u>20,235,593</u>         |
| Total Capital Assets being Depreciated, Net  | <u>5,990,111</u>             | <u>17,667</u>       | <u>(39,271)</u>    | <u>5,968,507</u>          |
| Governmental Activities, Capital Assets, Net | <u>\$ 7,635,946</u>          | <u>\$ 3,941,691</u> | <u>\$ (39,271)</u> | <u>\$ 11,538,366</u>      |

Depreciation expense of \$ 398,848 for the year ended June 30, 2013 was charged to the following governmental functions:

|  |                   |
|--|-------------------|
| Administration                               | \$ 776            |
| District Support Services                    | 26,663            |
| Elementary and Secondary Regular Instruction | 93,251            |
| Vocational Education Instruction             | 59                |
| Special Education Instruction                | 1,883             |
| Instructional Support Services               | 9,961             |
| Pupil Support Services                       | 3,662             |
| Sites and Buildings                          | 241,583           |
| Food Service                                 | 16,848            |
| Community Education and Services             | 4,162             |
| Total Depreciation Expense                   | <u>\$ 398,848</u> |



**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 6 – SHORT-TERM DEBT**

**A. Certificates of Indebtedness**

On October 12, 2012, the District paid the G.O. Tax Anticipation Certificates of Indebtedness, Series 2012C. The short-term debt of \$ 4,500,000 was dated April 12, 2012 and had an interest rate of 1.0%. As of June 30, 2013, there is no short-term debt outstanding.

**NOTE 7 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

|   | <u>Issue<br/>Date</u> | <u>Interest<br/>Rates</u> | <u>Original<br/>Issue</u> | <u>Final<br/>Maturity</u> | <u>Principal<br/>Outstanding</u> | <u>Due Within<br/>One year</u> |
|---|-----------------------|---------------------------|---------------------------|---------------------------|----------------------------------|--------------------------------|
| Long-Term Liabilities:                                |                       |                           |                           |                           |                                  |                                |
| G.O. Bonds Including                                  |                       |                           |                           |                           |                                  |                                |
| Refunding Bonds:                                      |                       |                           |                           |                           |                                  |                                |
| 2009A Taxable OPEB Bonds                              | 04/21/09              | 2.25%-4.55%               | \$ 4,095,000              | 02/01/19                  | \$ 2,865,000                     | \$ 435,000                     |
| G.O. School Building Bonds,<br>Series 2012A           | 03/01/12              | 1.00%-3.00%               | 29,925,000                | 02/01/27                  | 28,425,000                       | 815,000                        |
| G.O. School Building Refunding<br>Bonds, Series 2012B | 03/01/12              | 2.00%                     | 2,070,000                 | 02/01/14                  | <u>1,005,000</u>                 | <u>1,005,000</u>               |
| Total G.O. Bonds                                      |                       |                           |                           |                           | <u>32,295,000</u>                | <u>2,255,000</u>               |
| Unamortized Bond Premium                              |                       |                           |                           |                           | 573,026                          | -                              |
| Capital Leases  |                       |                           |                           |                           | 110,596                          | 49,034                         |
| Compensated<br>Absences Payable                       |                       |                           |                           |                           | <u>32,891</u>                    | <u>26,312</u>                  |
| Total all Long-Term<br>Liabilities                    |                       |                           |                           |                           | <u>\$ 33,011,513</u>             | <u>\$ 2,330,346</u>            |

The long-term bond and lease liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and to finance OPEB obligations. Other long-term liabilities such as compensated absences payable are typically liquidated through the General Fund.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 7 – LONG-TERM DEBT**

**B. Minimum Debt Payments for Bonds**

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

| Year Ending<br>June 30, | G.O. Bonds           |                     |                      |
|-------------------------|----------------------|---------------------|----------------------|
|                         | Principal            | Interest            | Total                |
| 2014                    | \$ 2,255,000         | \$ 773,791          | \$ 3,028,791         |
| 2015                    | 2,320,000            | 723,037             | 3,043,037            |
| 2016                    | 2,375,000            | 669,437             | 3,044,437            |
| 2017                    | 2,435,000            | 613,101             | 3,048,101            |
| 2018                    | 2,495,000            | 553,975             | 3,048,975            |
| 2019-2023               | 11,085,000           | 1,951,982           | 13,036,982           |
| 2024-2027               | 9,330,000            | 671,869             | 10,001,869           |
| Total                   | <u>\$ 32,295,000</u> | <u>\$ 5,957,192</u> | <u>\$ 38,252,192</u> |

**C. Capital Lease Obligations**

On August 5, 2010, the District entered into a lease purchase agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled \$ 232,792. The capital lease agreement includes annual principal and interest payments of \$ 55,032.

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

| Year Ending<br>June 30,                 |                   |
|---|-------------------|
| 2014                                    | \$ 55,032         |
| 2015                                    | 55,032            |
| 2016                                    | 9,172             |
| Total Minimum Lease Payments            | <u>119,236</u>    |
| Less Amount Representing Interest       | <u>(8,640)</u>    |
| Present Value of Minimum Lease Payments | <u>\$ 110,596</u> |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 7 – LONG-TERM DEBT**

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

|                                 | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Ending<br/>Balance</u> |
|---------------------------------|------------------------------|------------------|---------------------|---------------------------|
| Long-Term Liabilities:          |                              |                  |                     |                           |
| G.O. Bonds                      | \$ 35,280,000                | \$ -             | \$ 2,985,000        | \$ 32,295,000             |
| Unamortized Bond Premium        | 632,320                      | -                | 59,294              | 573,026                   |
| Capital Leases                  | 156,422                      | -                | 45,826              | 110,596                   |
| Compensated<br>Absences Payable | <u>26,782</u>                | <u>95,423</u>    | <u>89,314</u>       | <u>32,891</u>             |
| Total Long-Term Liabilities     | <u>\$ 7,032,373</u>          | <u>\$ 95,423</u> | <u>\$ 3,179,434</u> | <u>\$ 33,011,513</u>      |

**NOTE 8 – FUND BALANCES/NET POSITION**

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

**A. Fund Balances**

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 8 – FUND BALANCES/NET POSITION**

**A. Fund Balances (Continued)**

|   | General<br>Fund     | Debt<br>Service   | Community<br>Service Fund | Building<br>Construction | Nonmajor<br>Funds | Total                |
|---|---------------------|-------------------|---------------------------|--------------------------|-------------------|----------------------|
| Nonspendable:                           |                     |                   |                           |                          |                   |                      |
| Inventory                               | \$ 46,874           | \$ -              | \$ -                      | \$ -                     | \$ 12,058         | \$ 58,932            |
| Prepaid Items                           | 114,749             | -                 | 1,155                     | -                        | 1,504             | 117,408              |
| Total Nonspendable                      | <u>161,623</u>      | <u>-</u>          | <u>1,155</u>              | <u>-</u>                 | <u>13,562</u>     | <u>176,340</u>       |
| Restricted/Reserved for:                |                     |                   |                           |                          |                   |                      |
| Deferred Maintenance                    | 1                   | -                 | -                         | -                        | -                 | 1                    |
| Health and Safety                       | (449,679)           | -                 | -                         | -                        | -                 | (449,679)            |
| Operating Capital                       | 205,250             | -                 | -                         | -                        | -                 | 205,250              |
| Safe Schools - Crime Levy               | 4,703               | -                 | -                         | -                        | -                 | 4,703                |
| Community Education                     | -                   | -                 | 465,871                   | -                        | -                 | 465,871              |
| Early Childhood and<br>Family Education | -                   | -                 | 26,611                    | -                        | -                 | 26,611               |
| School Readiness                        | -                   | -                 | 54,200                    | -                        | -                 | 54,200               |
| Adult Basic Education                   | -                   | -                 | 1,665                     | -                        | -                 | 1,665                |
| Community Service                       | -                   | -                 | 484                       | -                        | -                 | 484                  |
| Food Service                            | -                   | -                 | -                         | -                        | 158,079           | 158,079              |
| Debt Service                            | -                   | 448,465           | -                         | -                        | 84,120            | 532,585              |
| Building Projects                       | -                   | -                 | -                         | 25,854,433               | -                 | 25,854,433           |
| Total Restricted/Reserved               | <u>(239,725)</u>    | <u>448,465</u>    | <u>548,831</u>            | <u>25,854,433</u>        | <u>242,199</u>    | <u>26,854,203</u>    |
| Committed for:                          |                     |                   |                           |                          |                   |                      |
| Separation/Retirement<br>Benefits       | 159,199             | -                 | -                         | -                        | -                 | 159,199              |
| Assigned for:                           |                     |                   |                           |                          |                   |                      |
| Special Education                       | 200,000             | -                 | -                         | -                        | -                 | 200,000              |
| Class Size Reduction                    | 100,000             | -                 | -                         | -                        | -                 | 100,000              |
| Student Activities                      | 207,737             | -                 | -                         | -                        | -                 | 207,737              |
|   | <u>507,737</u>      | <u>-</u>          | <u>-</u>                  | <u>-</u>                 | <u>-</u>          | <u>507,737</u>       |
| Unassigned                              | <u>3,452,883</u>    | <u>-</u>          | <u>-</u>                  | <u>-</u>                 | <u>-</u>          | <u>3,452,883</u>     |
| Total Fund Balance                      | <u>\$ 4,041,717</u> | <u>\$ 448,465</u> | <u>\$ 549,986</u>         | <u>\$ 25,854,433</u>     | <u>\$ 255,761</u> | <u>\$ 31,150,362</u> |

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 8 – FUND BALANCES/NET POSITION**

**A. Fund Balances (Continued)**

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

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

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

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

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

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

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

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

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund, not already spent on inventory or prepaid items.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

Restricted/Reserved for Building Projects – This balance represents available resources from the issuance of the 2012A school building bonds.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned – This balance represents estimated amounts that are set aside for special education and class size reduction, as well as the balance of the student activity accounts that are under board control.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 8 – FUND BALANCES/NET POSITION**

**B. Net Position**

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service and Debt Service Funds and the effects of the conversion to the government-wide statements.

**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

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

**Teachers' Retirement Association**

**A. Plan Description**

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. 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 Statutes* and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age and a formula multiplier based on years of credit at termination of service.

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers’ Retirement Association (Continued)**

**A. Plan Description (Continued)**

**Tier I:**

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

With these provisions:

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**A. Plan Description (Continued)**

**Tier II:**

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.4% per year.

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

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

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

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



**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**B. Funding Policy**

*Minnesota Statutes* Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.5%, respectively, of their annual covered salary during 2012 as employee contributions. The TRA employer contribution rates are 6.0% for Coordinated Plan members and 10.0% for Basic Plan members during 2012. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2012 was approximately \$ 3.87 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2011 and 2010 were \$ 3.84 billion and \$ 3.79 billion, respectively. The District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$ 728,257, \$ 660,036 and \$ 590,893, respectively, equal to the required contributions for each year as set by state statute.

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](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 (800) 652-9026.

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. In 2012, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ended June 30, 2013, 2012 and 2011 were \$ 283,691, \$ 261,629 and \$ 251,895, respectively, equal to the contractually required contributions for each year as set by state statute.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by HealthPartners. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

School service employees hired before July 1, 2000, have completed 15 years of service and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

There is one custodian eligible for severance at June 30, 2013. Their severance is 100 days of pay at their daily rate of pay at retirement, less any contributions the District has made to the deferred compensation plan; this balance will be paid into a HSA.

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of \$ 18,500 or \$ 26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the \$ 18,500 or \$ 26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

**B. Funding Policy**

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with HealthPartners. The required contributions are based on projected pay-as-you-go financing requirements. For 2013, the District contributed \$ 301,977 to the plan.

As of June 30, 2013, there were approximately 35 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 258 active participants. Of that total, 240 are not yet eligible to receive benefits.

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

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

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

|   |            |
|---|------------|
| ARC                                     | \$ 425,792 |
| Interest on Net OPEB Obligation         | (1,880)    |
| Adjustment to ARC                       | 2,778      |
| Annual OPEB Cost (Expense)              | 426,690    |
| Employer Contributions                  | (301,977)  |
| Increase in Net OPEB Obligation         | 124,713    |
| Net OPEB Obligation - Beginning of Year | (41,781)   |
| Net OPEB Obligation - End of Year       | \$ 82,932  |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012 and 2011 was as follows:

| Year<br>Ended | Annual OPEB<br>Cost | Employer<br>Contribution | Percentage of<br>Annual OPEB<br>Cost Contributed | Net OPEB<br>Obligation<br>(Asset) |
|---------------|---------------------|--------------------------|--|-----------------------------------|
| 06/30/13      | \$ 426,690          | \$ 301,977               | 71%  | \$ 82,932                         |
| 06/30/12      | 435,303             | 352,074                  | 81%  | (41,781)                          |
| 06/30/11      | 434,955             | 449,006                  | 103%   | (125,010)                         |

**D. Funded Status and Funding Progress**

As of July 1, 2012, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,359,715 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,359,715. The covered payroll (annual payroll of active employees covered by the plan) was \$ 13,007,901, and the ratio of the UAAL to the covered payroll was 25.8%.

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**D. Funded Status and Funding Progress (Continued)**

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

On April 21, 2009, the District issued \$ 4,095,000 G.O. Taxable OPEB Bonds, Series 2009A to fund part of the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the Post Employment Benefits Revocable Trust Internal Service Fund. As of June 30, 2013, the ending market value of these assets was \$ 4,379,973.

**E. Actuarial Methods and Assumptions**

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

At the July 1, 2012 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.0% initially, reduced incrementally to an ultimate rate of 5% after 6 years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 30 years.

**NOTE 11 – COMMITMENTS**

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

| <u>Project/Vendor</u>         | <u>Project<br/>Authorization</u> | <u>Work<br/>Completed</u> | <u>Remaining<br/>Commitment</u> |
|-------------------------------|----------------------------------|---------------------------|---------------------------------|
| Shirley Hills Primary         | \$ 4,166,650                     | \$ 1,003,845              | \$ 3,162,805                    |
| Mound Westonka High School    | 6,340,134                        | 1,516,159                 | 4,823,975                       |
| Various Districtwide Projects | 1,531,366                        | 82,654                    | 1,448,712                       |
| Wold Architects Engineers     | 1,363,960                        | 775,925                   | 588,035                         |
| Kraus-Anderson                | 2,257,512                        | 417,788                   | 1,839,724                       |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE**

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

**NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 65 requires governments to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources.

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

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**REQUIRED SUPPLEMENTARY INFORMATION**



**INDEPENDENT SCHOOL DISTRICT NO. 277**

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS  
June 30, 2013**

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued Liability<br/>(AAL) -<br/>Projected Unit<br/>Credit<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 07/01/08                                | \$ -   | \$ 3,917,060   | \$ 3,917,060                                 | 0.0%                              | \$ 11,691,731                      | 33.5%  |
| 07/01/10                                | -  | 3,533,073  | 3,533,073                                    | 0.0%                              | 12,649,005                         | 27.9%  |
| 07/01/12                                | -  | 3,359,715  | 3,359,715                                    | 0.0%                              | 13,007,901                         | 25.8%  |

**SUPPLEMENTARY INFORMATION**

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS**

**June 30, 2013**

|   | <u>Special<br/>Revenue Fund</u> | <u>Debt Service<br/>Fund</u>                   |                            |
|---|---------------------------------|--|----------------------------|
|   |                                 | Post<br>Employment<br>Benefits Debt<br>Service | Total<br>Nonmajor<br>Funds |
|   | <u>Food Service</u>             | <u>Service</u>                                 |                            |
| <b>ASSETS</b>   |                                 |  |                            |
| Cash and Investments  | \$ 207,708                      | \$ 372,259                                     | \$ 579,967                 |
| Current Property Taxes Receivable                           | -                               | 289,483  | 289,483                    |
| Delinquent Property Taxes Receivable                        | -                               | 11,268   | 11,268                     |
| Accounts Receivable   | 693                             | -  | 693                        |
| Due from Department of Education                            | -                               | 25   | 25                         |
| Inventory   | 12,058                          | -  | 12,058                     |
| Prepaid Items   | 1,504                           | -  | 1,504                      |
|   | <u>1,504</u>                    | <u>-</u>                                       | <u>1,504</u>               |
| Total Assets  | <u>\$ 221,963</u>               | <u>\$ 673,035</u>                              | <u>\$ 894,998</u>          |
| <b>LIABILITIES AND FUND BALANCES</b>                        |                                 |  |                            |
| <b>Liabilities</b>  |                                 |  |                            |
| Accounts Payable  | \$ 5,701                        | \$ -   | \$ 5,701                   |
| Salaries and Benefits Payable                               | 4,856                           | -  | 4,856                      |
| Deferred Revenue  | 39,765                          | 7,248  | 47,013                     |
| Property Taxes Levied for Subsequent<br>Year's Expenditures | -                               | 581,667  | 581,667                    |
| Total Liabilities   | <u>50,322</u>                   | <u>588,915</u>                                 | <u>639,237</u>             |
| <b>Fund Balances</b>  |                                 |  |                            |
| Nonspendable  | 13,562                          | -  | 13,562                     |
| Restricted  | 158,079                         | 84,120   | 242,199                    |
| Total Fund Balances   | <u>171,641</u>                  | <u>84,120</u>                                  | <u>255,761</u>             |
| Total Liabilities and<br>Fund Balances                      | <u>\$ 221,963</u>               | <u>\$ 673,035</u>                              | <u>\$ 894,998</u>          |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

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

|   | <u>Special<br/>Revenue Fund</u> | <u>Debt Service<br/>Fund</u>                   |                            |
|---|---------------------------------|--|----------------------------|
|   |                                 | Post<br>Employment<br>Benefits Debt<br>Service | Total<br>Nonmajor<br>Funds |
|   | <u>Food Service</u>             |  |                            |
| <b>REVENUES</b>                         |                                 |  |                            |
| Local Property Taxes                    | \$ -                            | \$ 572,589                                     | \$ 572,589                 |
| Other Local and County Revenues         | 3,520                           | -  | 3,520                      |
| Revenue from State Sources              | 36,232                          | 178  | 36,410                     |
| Revenue from Federal Sources            | 354,586                         | -  | 354,586                    |
| Sales and Other Conversion of Assets    | 845,187                         | -  | 845,187                    |
| Total Revenues                          | <u>1,239,525</u>                | <u>572,767</u>                                 | <u>1,812,292</u>           |
| <b>EXPENDITURES</b>                     |                                 |  |                            |
| <b>Current</b>                          |                                 |  |                            |
| Food Service                            | 1,210,246                       | -  | 1,210,246                  |
| <b>Capital Outlay</b>                   |                                 |  |                            |
| Food Service                            | 30,221                          | -  | 30,221                     |
| <b>Debt Service</b>                     |                                 |  |                            |
| Principal                               | -                               | 420,000  | 420,000                    |
| Interest and Fiscal Charges             | -                               | 127,274  | 127,274                    |
| Total Expenditures                      | <u>1,240,467</u>                | <u>547,274</u>                                 | <u>1,787,741</u>           |
| Excess of Revenues<br>Over Expenditures | (942)                           | 25,493   | 24,551                     |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                                 |  |                            |
| Proceeds from Sale of Capital Assets    | <u>1,438</u>                    | -  | <u>1,438</u>               |
| Net Change in Fund Balances             | 496                             | 25,493   | 25,989                     |
| <b>FUND BALANCES</b>                    |                                 |  |                            |
| <b>Beginning of Year</b>                | <u>171,145</u>                  | <u>58,627</u>                                  | <u>229,772</u>             |
| <b>End of Year</b>                      | <u>\$ 171,641</u>               | <u>\$ 84,120</u>                               | <u>\$ 255,761</u>          |

INDEPENDENT SCHOOL DISTRICT NO. 277

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
For the Year Ended June 30, 2013

|  | Audit         | UFARS         | Audit-UFARS |  | Audit        | UFARS        | Audit-UFARS |
|--|---------------|---------------|-------------|--|--------------|--------------|-------------|
| <b>01 GENERAL FUND</b>                           |               |               |             | <b>06 BUILDING CONSTRUCTION FUND</b>       |              |              |             |
| Total Revenue                                    | \$ 25,295,003 | \$ 25,295,007 | \$ (4)      | Total Revenue                              | \$ 75,106    | \$ 75,106    | \$ -        |
| Total Expenditures                               | 24,886,662    | 24,886,662    | -           | Total Expenditures                         | 4,084,317    | 4,084,317    | -           |
| <i>Nonspendable:</i>                             |               |               |             | <i>Nonspendable:</i>                       |              |              |             |
| 460 Nonspendable Fund Balance                    | 161,623       | 161,623       | -           | 460 Nonspendable Fund Balance              | -            | -            | -           |
| <i>Restricted/Reserved:</i>                      |               |               |             | <i>Restricted/Reserved:</i>                |              |              |             |
| 403 Staff Development                            | -             | -             | -           | 407 Capital Projects Levy                  | -            | -            | -           |
| 405 Deferred Maintenance                         | 1             | 1             | -           | 409 Alternative Facility Program           | -            | -            | -           |
| 406 Health and Safety                            | (449,679)     | (449,679)     | -           | 413 Building Projects Funded by COP/LP     | -            | -            | -           |
| 407 Capital Projects Levy                        | -             | -             | -           | <i>Restricted:</i>                         |              |              |             |
| 408 Cooperative Programs                         | -             | -             | -           | 464 Restricted Fund Balance                | 25,854,433   | 25,854,433   | -           |
| 414 Operating Debt                               | -             | -             | -           | <i>Unassigned:</i>                         |              |              |             |
| 416 Levy Reduction                               | -             | -             | -           | 463 Unassigned Fund Balance                | -            | -            | -           |
| 417 Taconite Building Maintenance                | -             | -             | -           |  |              |              |             |
| 423 Certain Teacher Programs                     | -             | -             | -           | <b>07 DEBT SERVICE FUND</b>                |              |              |             |
| 424 Operating Capital                            | 205,250       | 205,250       | -           | Total Revenue                              | \$ 2,817,182 | \$ 2,817,181 | \$ 1        |
| 426 \$ 25 Taconite                               | -             | -             | -           | Total Expenditures                         | 3,205,617    | 3,205,617    | -           |
| 427 Disabled Accessibility                       | -             | -             | -           | <i>Nonspendable:</i>                       |              |              |             |
| 428 Learning and Development                     | -             | -             | -           | 460 Nonspendable Fund Balance              | -            | -            | -           |
| 434 Area Learning Center                         | -             | -             | -           | <i>Restricted/Reserved:</i>                |              |              |             |
| 435 Contracted Alternative Programs              | -             | -             | -           | 425 Bond Refunding                         | -            | -            | -           |
| 436 State Approved Alternative Program           | -             | -             | -           | 451 QZAB and QSCB Payments                 | -            | -            | -           |
| 438 Gifted and Talented                          | -             | -             | -           | <i>Restricted:</i>                         |              |              |             |
| 441 Basic Skills Programs                        | -             | -             | -           | 464 Restricted Fund Balance                | 448,465      | 448,465      | -           |
| 445 Career Technical Programs                    | -             | -             | -           | <i>Unassigned:</i>                         |              |              |             |
| 446 First Grade Preparedness                     | -             | -             | -           | 463 Unassigned Fund Balance                | -            | -            | -           |
| 449 Safe School Crime                            | 4,703         | 4,703         | -           |  |              |              |             |
| 450 Transition for Pre-Kindergarten              | -             | -             | -           | <b>08 TRUST FUND</b>                       |              |              |             |
| 451 QZAB and QSCB Payments                       | -             | -             | -           | Total Revenue                              | \$ 36,278    | \$ 36,279    | \$ (1)      |
| 452 OPEB Liabilities not Held in Trust           | -             | -             | -           | Total Expenditures                         | 28,998       | 28,999       | (1)         |
| 453 Unfunded Severance and Retirement Levy       | -             | -             | -           | <i>Unassigned:</i>                         |              |              |             |
| <i>Restricted:</i>                               |               |               |             | 422 Unassigned Fund Balance (Net Position) | 223,665      | 223,665      | -           |
| 464 Restricted Fund Balance                      | -             | -             | -           |  |              |              |             |
| <i>Committed:</i>                                |               |               |             | <b>20 INTERNAL SERVICE FUND</b>            |              |              |             |
| 418 Committed for Separation/Retirement Benefits | 159,199       | 159,199       | -           | Total Revenue                              | \$ -         | \$ -         | \$ -        |
| 461 Committed                                    | -             | -             | -           | Total Expenditures                         | -            | -            | -           |
| <i>Assigned:</i>                                 |               |               |             | <i>Unassigned:</i>                         |              |              |             |
| 462 Assigned Fund Balance                        | 507,737       | 507,737       | -           | 422 Unassigned Fund Balance (Net Position) | -            | -            | -           |
| <i>Unassigned:</i>                               |               |               |             |  |              |              |             |
| 422 Unassigned Fund Balance                      | 3,452,883     | 3,452,886     | (3)         | <b>25 OPEB REVOCABLE TRUST</b>             |              |              |             |
|  |               |               |             | Total Revenue                              | \$ 44,644    | \$ 44,645    | \$ (1)      |
| <b>02 FOOD SERVICES FUND</b>                     |               |               |             | Total Expenditures                         | 252,719      | 252,719      | -           |
| Total Revenue                                    | \$ 1,239,525  | \$ 1,239,526  | \$ (1)      | <i>Unassigned:</i>                         |              |              |             |
| Total Expenditures                               | 1,240,467     | 1,240,466     | 1           | 422 Unassigned Fund Balance (Net Position) | 4,179,783    | 4,179,784    | (1)         |
| <i>Nonspendable:</i>                             |               |               |             |  |              |              |             |
| 460 Nonspendable Fund Balance                    | 13,562        | 13,562        | -           | <b>45 OPEB IRREVOCABLE TRUST</b>           |              |              |             |
| <i>Restricted/Reserved:</i>                      |               |               |             | Total Revenue                              | \$ -         | \$ -         | \$ -        |
| 452 OPEB Liabilities not Held in Trust           | -             | -             | -           | Total Expenditures                         | -            | -            | -           |
| <i>Restricted:</i>                               |               |               |             | <i>Unassigned:</i>                         |              |              |             |
| 464 Restricted Fund Balance                      | 158,079       | 158,079       | -           | 422 Unassigned Fund Balance (Net Position) | -            | -            | -           |
| <i>Unassigned:</i>                               |               |               |             |  |              |              |             |
| 463 Unassigned Fund Balance                      | -             | -             | -           | <b>47 OPEB DEBT SERVICE</b>                |              |              |             |
|  |               |               |             | Total Revenue                              | \$ 572,767   | \$ 572,767   | \$ -        |
| <b>04 COMMUNITY SERVICE FUND</b>                 |               |               |             | Total Expenditures                         | 547,274      | 547,273      | 1           |
| Total Revenue                                    | \$ 2,620,024  | \$ 2,620,024  | \$ -        | <i>Nonspendable:</i>                       |              |              |             |
| Total Expenditures                               | 2,622,955     | 2,622,957     | (2)         | 460 Nonspendable Fund Balance              | -            | -            | -           |
| <i>Nonspendable:</i>                             |               |               |             | <i>Restricted:</i>                         |              |              |             |
| 460 Nonspendable Fund Balance                    | 1,155         | 1,155         | -           | 464 Restricted Fund Balance                | 84,120       | 84,121       | (1)         |
| <i>Restricted/Reserved:</i>                      |               |               |             | <i>Unassigned:</i>                         |              |              |             |
| 426 \$ 25 Taconite                               | -             | -             | -           | 463 Unassigned Fund Balance                | -            | -            | -           |
| 431 Community Education                          | 465,871       | 465,871       | -           |  |              |              |             |
| 432 ECFE   | 26,611        | 26,611        | -           |  |              |              |             |
| 444 School Readiness                             | 54,200        | 54,200        | -           |  |              |              |             |
| 447 Adult Basic Education                        | 1,665         | 1,665         | -           |  |              |              |             |
| 452 OPEB Liabilities not Held in Trust           | -             | -             | -           |  |              |              |             |
| <i>Restricted:</i>                               |               |               |             |  |              |              |             |
| 464 Restricted Fund Balance                      | 484           | 484           | -           |  |              |              |             |
| <i>Unassigned:</i>                               |               |               |             |  |              |              |             |
| 463 Unassigned Fund Balance                      | -             | -             | -           |  |              |              |             |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2013**

| <u>Federal Funding Source</u>                      | <u>Federal<br/>CFDA<br/>Number</u> | <u>Grant Name</u>   | <u>Expenditures</u>        |
|--|------------------------------------|---|----------------------------|
| <b>Through Minnesota Department of Education</b>   |                                    |   |                            |
| USDOA  | 10.555                             | Commodities Programs (Cluster)  | \$ 69,473                  |
| USDOA  | 10.553                             | School Breakfast Program (Cluster)  | 26,789                     |
| USDOA  | 10.555                             | Child Nutrition Type A Lunch (Cluster)  | 228,301                    |
| USDOA  | 10.556                             | Special Milk Program (Cluster)  | 634                        |
| USDOA  | 10.559                             | Summer Food Service Program (Cluster)   | 29,389                     |
| Total Child Nutrition Cluster                      |                                    |   | <u>354,586</u>             |
| USDOED   | 84.010                             | Title I, Part A   | 236,075                    |
| USDOED   | 84.027                             | Special Education (Cluster)   | 496,955                    |
| USDOED   | 84.173                             | Special Education Early Childhood (Cluster)                                       | 15,296                     |
| USDOED   | 84.027                             | IDEAS Part B Discretionary Continuous<br>Improvement Monitoring Process (Cluster) | 5,000                      |
| USDOED   | 84.173                             | IDEAS Part B Discretionary Professional<br>Development (Cluster)                  | 645                        |
| Total Federal Special Education Cluster            |                                    |   | <u>517,896</u>             |
| USDOED   | 84.367                             | Title II, Part A - Improving Teacher Quality                                      | 58,870                     |
| <b>Through Independent School District No. 284</b> |                                    |   |                            |
| USDOED   | 84.181                             | Infants and Toddlers  | 6,699                      |
| <b>Through Independent School District No. 287</b> |                                    |   |                            |
| USDOED   | 84.048A                            | Carl Perkins  | 9,475                      |
| Total Federal Expenditures                         |                                    |   | <u><u>\$ 1,183,601</u></u> |

**INDEPENDENT SCHOOL DISTRICT NO. 277**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2013**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – INVENTORY**

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



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

**INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Independent School District No. 277  
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2013, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 23, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, as Audit Finding 02-01, that we consider to be a significant deficiency in internal control.





## **Compliance and Other Matters**

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

## **District's Response to the Findings**

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

## **Purpose of this Report**

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

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

KERN, DEWENTER, VIERE, LTD.  
Bloomington, Minnesota  
September 23, 2013



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

**INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Independent School District No. 277  
Minnetrista, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Independent School District No. 277, Minnetrista, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 277.



## Opinion on Each Major Federal Program

In our opinion, Independent School District No. 277, Minnetrista, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

KERN, DEWENTER, VIERE, LTD.  
Bloomington, Minnesota  
September 23, 2013

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**IN ACCORDANCE WITH OMB *CIRCULAR A-133***  
**June 30, 2013**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

|   |                          |
|---|--------------------------|
| Type of auditor’s report issued:  | Unmodified               |
| Internal control over financial reporting:  |                          |
| • Material weakness(es) identified?   | No                       |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | Yes, Audit Finding 02-01 |
| Noncompliance material to financial statements noted?   | No                       |

**Federal Awards**

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

**Identification of Major Programs**

|  |                                   |
|--|-----------------------------------|
| CFDA No.:  | 84.027 and 84.173                 |
| Name of Federal Program or Cluster:                                      | Special Education Cluster         |
| CFDA No.:  | 10.553, 10.555, 10.556 and 10.559 |
| Name of Federal Program or Cluster:                                      | Child Nutrition Cluster           |
| Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000                        |
| Auditee qualified as low risk auditee?                                   | No                                |

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**IN ACCORDANCE WITH OMB CIRCULAR A-133**  
**June 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 02-01**

*Criteria or Specific Requirement:*

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

*Condition:*

During the year ended June 30, 2013, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

*Questioned Costs:*

None

*Context:*

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

*Effect:*

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

*Cause:*

There are a limited number of office employees.

*Recommendation:*

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

**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**IN ACCORDANCE WITH OMB CIRCULAR A-133**  
**June 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 02-01 (Continued)**

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.
3. Official Responsible for Ensuring CAP  
Megan Berberick, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2014.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award findings or questioned costs.

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## **REPORT ON LEGAL COMPLIANCE**

### **INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Independent School District No. 277  
Minnetrista, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements, and have issued our report thereon dated September 23, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. Our audit considered all of the listed categories.

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

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

A handwritten signature in cursive script that reads "Kern DeWenter, Viero Ltd". The signature is written in dark ink and is positioned above the printed name of the auditor.

KERN, DEWENTER, VIERO, LTD.  
Bloomington, Minnesota  
September 23, 2013



**INDEPENDENT SCHOOL DISTRICT NO. 277**  
**SCHEDULE OF FINDINGS AND CORRECTIVE**  
**PLANS ON LEGAL COMPLIANCE**  
**June 30, 2013**

**CURRENT YEAR LEGAL COMPLIANCE FINDING:**

**Prompt Payment of Bills**

*Minnesota Statutes* 471.425, subd. 2 requires that bills are to be paid within the time period set by the terms of the contract or within the standard payment period. The standard payment period is 35 days from receipt of goods or services or invoice, whichever is later, for governing boards that meet at least once per month.

In our disbursement testing, we noted 3 of 40 disbursements tested were not paid by the terms of the contract or within the standard payment period. In addition, late payments did not include interest.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The food service department will forward bills to the District Office by the 15<sup>th</sup> and 30<sup>th</sup> of each month to ensure they can be processed in a timely manner.
3. Official Responsible for Ensuring CAP  
Megan Berberick, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2014.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**PRIOR YEAR LEGAL COMPLIANCE FINDING:**

**Old Outstanding Checks**

According to *Minnesota Statutes* 345.38-.43, unclaimed or uncashed checks held for more than three years should be reported and paid or delivered to the State Commissioner of Commerce.

During our 2012 audit, we noted outstanding checks over three years old as reconciling items to cash.

**CORRECTIVE ACTION TAKEN**

In 2013, the District properly delivered to the State Commissioner of Commerce unclaimed checks that were over three years old.