

INTERMEDIATE DISTRICT NO. 287  
PLYMOUTH, MINNESOTA

Financial Statements and  
Supplemental Information

Year Ended  
June 30, 2013

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INTRODUCTORY SECTION

INTERMEDIATE DISTRICT NO. 287

Board of Directors and Administration  
as of June 30, 2013

**BOARD OF DIRECTORS**

<u>Board of Directors</u>	<u>Member District</u>	<u>Position on Board</u>
Ann Bremer	Westonka	Chairperson
Carol Bomben	Eden Prairie	Vice Chairperson
Gregory Thielsen	Brooklyn Center	Treasurer
Nancy Rowley	Richfield	Clerk
Nancy Gores	St. Louis Park	Director
Dean Henke	Osseo	Director
Michéle Kunz	Orono	Director
Regina Neville	Edina	Director
Carter Peterson	Wayzata	Director
Robert Quam	Minnetonka	Director
Laura Ronbeck	Hopkins	Director
Sherry Tyrrell	Robbinsdale	Director

**ADMINISTRATION**

Sandra Lewandowski	Superintendent
Colleen Baumtrog	Executive Director of Administrative Services
Jane Holmberg	Executive Director of Teaching and Learning
Dolly Lastine	Executive Director of Special Education
Charlene Myklebust	Executive Director of Mental Health
Anne Becker	Director of Human Resources
Mae Hawkins	Director of Finance
Gloria Wilder	Assistant Director of Finance
Chad Maxa	Director of Information Technology
David Anderson	Finance Manager
Thomas Shultz	Director of Facilities

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of  
Intermediate District No. 287  
Plymouth, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Intermediate District No. 287 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)



## **OPINIONS**

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

## **EMPHASIS OF MATTER**

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

## **OTHER MATTERS**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)

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

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

### **Prior Year Comparative Information**

We have previously audited the District's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 21, 2012. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota  
December 12, 2013

## INTERMEDIATE DISTRICT NO. 287

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

This section of Intermediate District No. 287's (the District) annual financial statements presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2013. We encourage readers to consider the financial information presented here in conjunction with other components of the District's annual financial statements.

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

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

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information;
- Combining and individual fund statements and schedules, presented as supplemental information; and
- Other district information.

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

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

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

The two government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any)—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional non-financial factors such as changes in member district usage and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including career and technical education, academic education, special education, student clubs, and administrative support services, are primarily financed with tuition, membership fees, access fees, and operating grants.

## Fund Financial Statements

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

**Governmental Funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. As this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

**Proprietary Funds** – The District maintains one type of proprietary fund. The Internal Service Fund is used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its dental self-insurance activities. These services have been included within governmental activities in the government-wide financial statements.

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current and other assets	\$ 31,496,902	\$ 27,740,845
Restricted assets	2,452,486	3,589,389
Capital assets, net of accumulated depreciation	<u>79,701,970</u>	<u>79,661,717</u>
<b>Total assets</b>	<b><u>\$ 113,651,358</u></b>	<b><u>\$ 110,991,951</u></b>
<b>Liabilities</b>		
Current and other liabilities	\$ 18,375,634	\$ 15,677,883
Long-term liabilities, including due within one year	<u>83,661,338</u>	<u>85,255,732</u>
<b>Total liabilities</b>	<b><u>\$ 102,036,972</u></b>	<b><u>\$ 100,933,615</u></b>
<b>Net position</b>		
Net investment in capital assets	\$ 4,052,663	\$ 2,465,210
Restricted	3,025,901	1,856,972
Unrestricted	<u>4,535,822</u>	<u>5,736,154</u>
<b>Total net position</b>	<b><u>\$ 11,614,386</u></b>	<b><u>\$ 10,058,336</u></b>

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts.

The District's total net position increased by \$1,556,050 during the year ended June 30, 2013. The net investment in capital assets increased by \$1,587,453, mainly due to unrestricted assets used for capital asset additions in the current year. Restricted net position increased by \$1,168,929, mainly due to an increase in the amount restricted for debt service. The unrestricted portion of net position decreased \$1,200,332 in the current year. The decrease in unrestricted net position was mainly due to the use of assigned fund balance in the General Fund to finance furniture and equipment purchases for the new North Education Center Building.

The decrease in restricted assets is the result of a combination of an increase in the sinking fund which will be used to pay a portion of the North Education Center's (NEC) outstanding debt and the use of restricted assets for the completion of construction at NEC.

Table 2 presents a condensed version of the Change in Net Position of the District:

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Program revenues		
Charges for services	\$ 24,693,241	\$ 25,187,923
Operating grants and contributions	49,209,282	50,953,848
General revenues		
General grants and aids	5,101,862	5,526,599
Other general revenues	489,972	38,435
Investment earnings	70,443	66,335
<b>Total revenue</b>	<u>79,564,800</u>	<u>81,773,140</u>
<b>Expenses</b>		
Career and technical education	1,545,389	2,089,610
Academic education	9,836,410	9,765,874
Special education	46,711,262	47,330,201
Student clubs	29,161	28,059
Administrative support services and operations and maintenance	15,030,687	19,944,160
Food service	590,030	364,196
Community service	221,269	214,916
Interest and fiscal charges on debt	4,044,542	4,473,600
<b>Total expenses</b>	<u>78,008,750</u>	<u>84,210,616</u>
<b>Change in net position</b>	<u><u>\$ 1,556,050</u></u>	<u><u>\$ (2,437,476)</u></u>

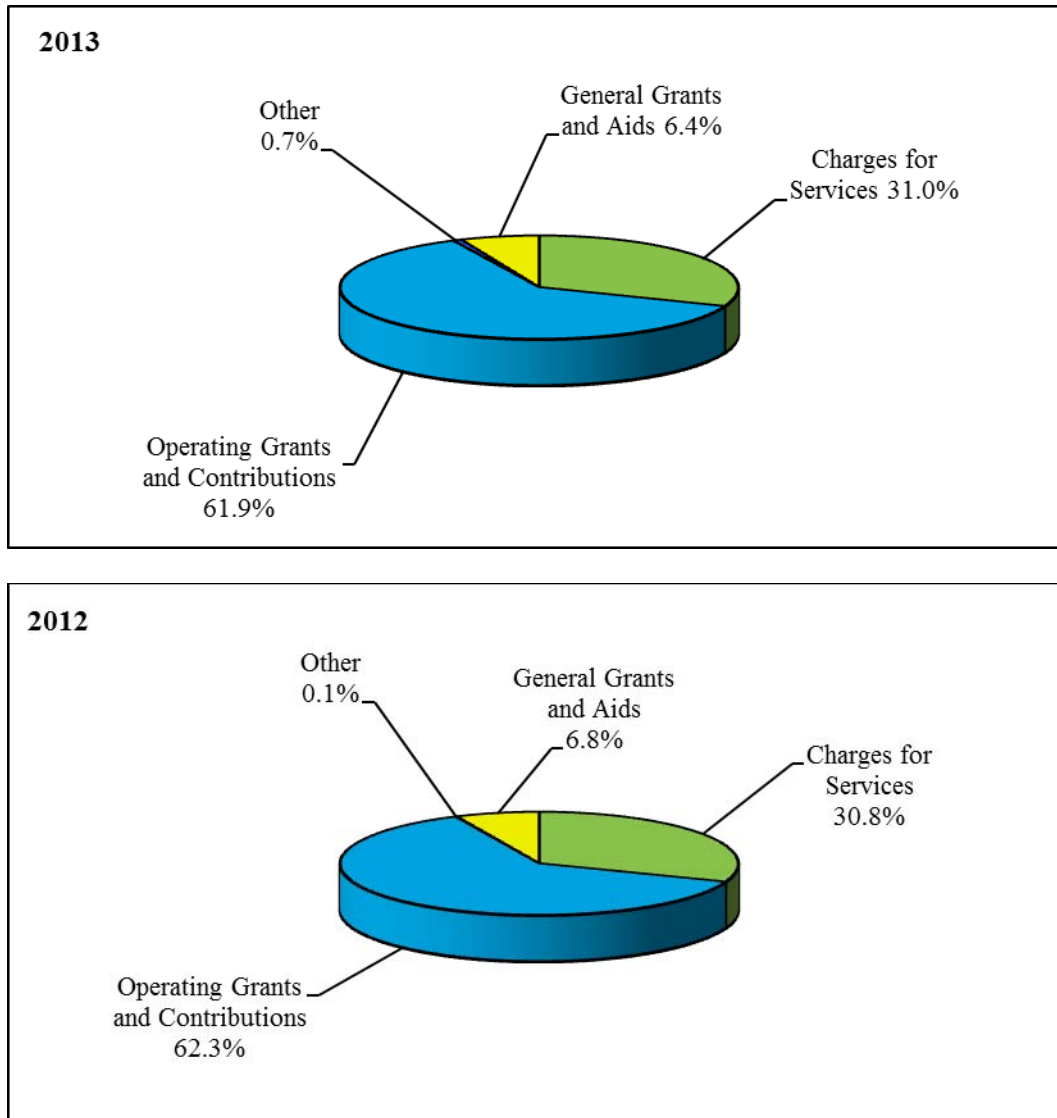
This statement is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The District's total revenues were \$79,564,800 for the year ended June 30, 2013. Charges for services account for 31.0 percent of total revenues for the year while operating grants and contributions accounted for 61.9 percent. General grants and aids accounted for 6.4 percent of the total revenue and are mainly from pass-through levies for debt service and the federal reimbursement received for interest payments made on the Build America Bonds.

The total cost of all programs and services was \$78,008,750, which is lower than fiscal 2012 by \$6,201,866. This was mainly due to the fact that in 2012, administrative support services included \$4.9 million in tuition refunds to member and non-member districts.

Figures A and B show further analysis of these revenue sources and expense functions:

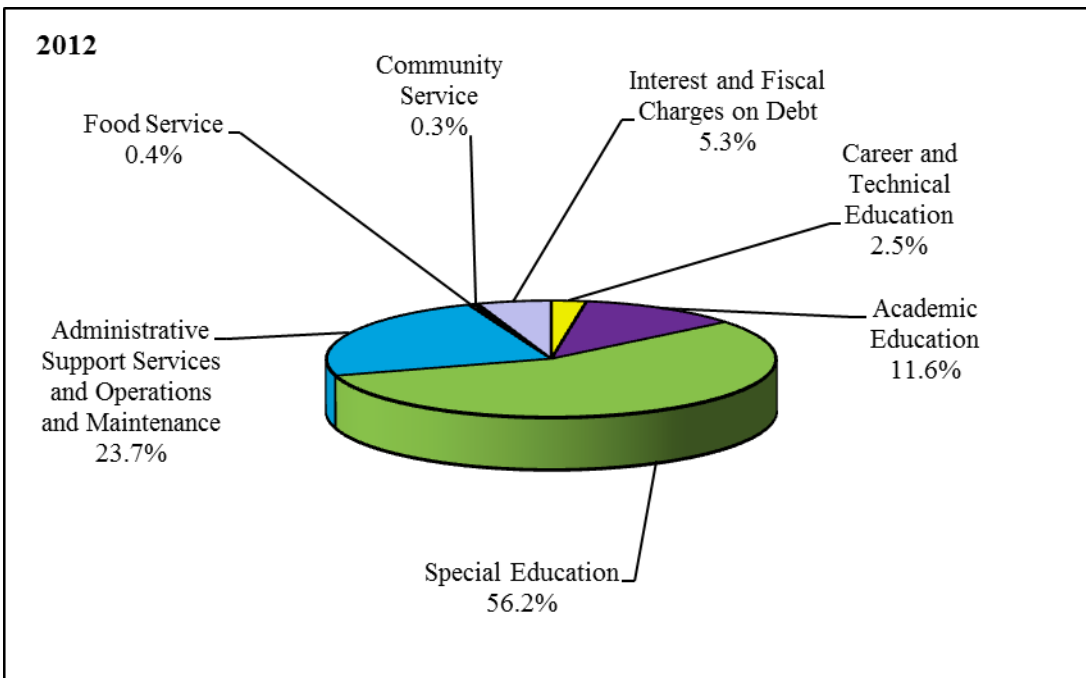
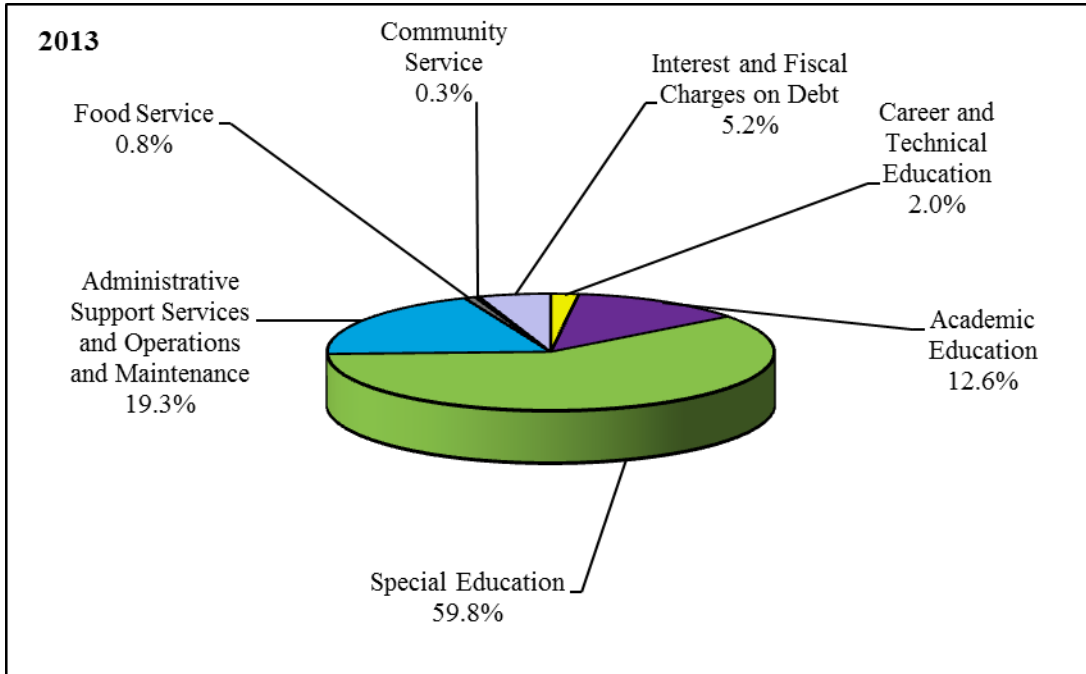
**Figure A – Sources of Revenues for Fiscal Years 2013 and 2012**



The largest share of the District’s revenue results from services to member and non-member school districts that normally result in tuition charges and service fees. Special education tuition billing has been processed through the Minnesota Department of Education (MDE) since 2009. The MDE adjusts aid payments, taking them from districts served by the District and paying the District directly. Because these dollars flow through the state, they are classified as an operating grant rather than a charge for services.

The above graphs show the stability in funding sources between the two years due to the District’s continuous work with MDE and member districts to establish greater predictability, timeliness, and stability in revenues by improving processes and communication.

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



The District's expenses are predominately in categories that correlate directly to providing instruction, which includes: special education, academic education, and career and technical education, comprising 74.4 percent of the total. Total expenses for the year in administrative support services and operations and maintenance were 19.3 percent, which include administrative, business and instructional support services, building operations and maintenance, and tuition refunds. An additional 5.2 percent reflects debt service expenses related to financing of facilities. In 2012, administrative support services and operations and maintenance included \$4.9 million in tuition refunds to member and non-member districts.



Table 3 presents the net cost of governmental activities by functional activity of the District:

	2013		2012	
	Total Cost of Services	Net (Expenses Over) Revenues From Services	Total Cost of Services	Net (Expenses Over) Revenues From Services
Governmental activities				
Career and technical education	\$ 1,545,389	\$ (94,164)	\$ 2,089,610	\$ (388,775)
Academic education	9,836,410	(553,848)	9,765,874	(61,812)
Special education	46,711,262	(457,596)	47,330,201	(51,625)
Student clubs	29,161	6,705	28,059	239
Administrative support services and operations and maintenance	15,030,687	1,405,056	15,056,054	1,797,346
Tuition refund	–	–	4,888,106	(4,888,106)
Food service	590,030	(246,902)	364,196	(23,797)
Community service	221,269	(120,936)	214,916	21,285
Interest and fiscal charges on debt	4,044,542	(4,044,542)	4,473,600	(4,473,600)
Total	\$ 78,008,750	\$ (4,106,227)	\$ 84,210,616	\$ (8,068,845)

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 4 shows the change in total fund balances of each of the District's governmental funds:

	2013	2012	Increase (Decrease)
Major funds			
General	\$ 13,288,874	\$ 13,949,322	\$ (660,448)
Capital Projects – Building Construction Fund	–	694,705	(694,705)
Nonmajor funds			
Community Service Special Revenue	–	21,078	(21,078)
Debt Service Fund	2,520,724	1,338,459	1,182,265
Total governmental funds	\$ 15,809,598	\$ 16,003,564	\$ (193,966)

The Board of Directors fund balance policy states: “To ensure the financial strength and stability of the District, the Board of Directors will endeavor to maintain an unassigned fund balance of at least 6 to 8 percent of the District’s General Fund operating budget, excluding operating capital programs.”

The District transferred an amount to an assigned fund balance for severance to continue to fund future severance obligations. The District also has an assigned fund balance for MDE special education state aid tuition appeals, of which \$473,897 remains. This is in recognition of the potential for additional calculation changes in this area by the MDE.

The change in Capital Projects – Building Construction Fund balance is due to the substantial completion of the NEC.

### Analysis of the General Fund

Table 5 presents a summary of General Fund revenues:

	<u>2013</u>	<u>2012</u>	<u>Amount of Increase (Decrease)</u>
Local sources			
Pass-through levies	\$ 2,974,288	\$ 2,825,406	\$ 148,882
Tuition	18,995,104	19,647,575	(652,471)
Investment earnings	16,186	12,498	3,688
Other	4,414,824	6,087,217	(1,672,393)
State sources	46,793,472	47,049,421	(255,949)
Federal sources	<u>667,828</u>	<u>1,672,281</u>	<u>(1,004,453)</u>
 Total General Fund revenues	 <u>\$ 73,861,702</u>	 <u>\$ 77,294,398</u>	 <u>\$ (3,432,696)</u>

The District received approximately \$3.0 million in property taxes that were levied for by their member districts. The pass-through levies are authorized in Minnesota Statutes to cover the District’s lease costs, safe schools initiatives, and health and safety programs. The decrease in tuition revenue was primarily due to a planned reduction in Itinerant Services provided to member and non-member districts in 2013. Other revenue declined \$1.5 million, mainly due to a decrease in the lease levy related to the payment of debt service. Reductions in the Math and Science Teacher Grant and the phase-out of the federal Jobs Funds Act are the primary factors in the federal sources decrease for 2013.

Table 6 presents a summary of General Fund expenditures:

	<u>2013</u>	<u>2012</u>	<u>Amount of Increase (Decrease)</u>
Salaries	\$ 43,530,343	\$ 44,045,236	\$ (514,893)
Employee benefits	15,228,459	14,733,315	495,144
Purchased services	8,651,943	9,780,633	(1,128,690)
Supplies and materials	1,176,428	1,144,598	31,830
Capital expenditures	2,239,945	1,809,357	430,588
Other expenditures	1,023,195	1,074,337	(51,142)
Tuition refund	-	4,888,106	(4,888,106)
Debt service	2,336,167	2,349,272	(13,105)
<b>Total General Fund expenditures</b>	<b><u>\$ 74,186,480</u></b>	<b><u>\$ 79,824,854</u></b>	<b><u>\$ (5,638,374)</u></b>

The decrease in expenditures of \$5,638,374 from the prior year is mainly due to a \$4.9 million special education revenue recalculation received from the MDE for a tuition appeal that was refunded/passed through to member and non-member districts in the prior fiscal year. A significant cause of the decline in purchased services is due to a decline in lease costs as certain space was no longer needed due to the opening of the NEC.

Table 7 shows the General Fund unassigned fund balance as compared to expenditures:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Unreserved – unassigned fund balance	\$ 4,691,375	\$ 3,778,052	\$ 4,757,797	\$ 6,187,960	\$ 6,310,491
Unassigned fund balance as a percentage of noncapital related expenditures	6.9%	5.5%	6.7%	7.8%	8.5%

Unassigned fund balance as a percentage of noncapital related expenditures is one key measurement of a district's financial health. The unassigned fund balance of \$6,310,491 at June 30, 2013 represents 8.5 percent of annual expenditures. The District continues to monitor its fund balances closely. The Board of Director's policy sets a goal of at least 6 to 8 percent for the unassigned fund balance as a percentage of noncapital related expenditures.

## General Fund Budgetary Highlights

Table 8 summarizes the General Fund budget to actual comparison:

	Original Budget	Final Budget	Actual	Over (Under) Final Budget	
				Amount	Percent
Revenue	<u>\$ 75,615,009</u>	<u>\$ 75,497,491</u>	<u>\$ 73,861,702</u>	<u>\$ (1,635,789)</u>	<u>(2.2%)</u>
Expenditures	<u>\$ 76,985,881</u>	<u>\$ 77,104,002</u>	<u>\$ 74,186,480</u>	<u>\$ (2,917,522)</u>	<u>(3.8%)</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District might amend that budget for known changes in circumstances such as enrollment levels, grant funding, and employee contract settlements.

An intermediate school district's revenues are generated based on offsetting expenditures. Therefore, when actual expenditures are less than budgeted projections, revenues will also be less than budgeted. Revenues in the special education area were lower than budget as special education revenues are a reimbursement of special education expenditures that due to cost containment efforts finished the year below budget. Also, due to realized savings in administration and operations expenditures and lower than anticipated expenditures in facilities, overall expenditures in the General Fund concluded the year below budget.

### **OTHER MAJOR FUND**

#### **Capital Projects – Building Construction Fund**

The activity in this fund is largely controlled by debt issues used for the acquisition or construction of major capital facilities. The fund had no fund balance at year-end due to the completion of the NEC construction project.

## CAPITAL ASSETS AND LONG-TERM LIABILITIES

### Capital Assets

Table 9 shows the District's capital assets, together with changes from the previous year. The table also shows total depreciation expense for fiscal years ending June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Net Change</u>
Land	\$ 10,865,963	\$ 10,865,963	\$ -
Buildings	75,032,677	41,967,835	33,064,842
Equipment	3,637,287	3,059,290	577,997
Construction in progress	4,372	31,843,051	(31,838,679)
Less accumulated depreciation	<u>(9,838,329)</u>	<u>(8,074,422)</u>	<u>(1,763,907)</u>
Total	<u>\$ 79,701,970</u>	<u>\$ 79,661,717</u>	<u>\$ 40,253</u>
Depreciation expense	<u>\$ 1,797,361</u>	<u>\$ 1,120,521</u>	<u>\$ 676,840</u>

The significant decrease in construction in progress and the increase in depreciation expense is due to the completion of the NEC construction project.

### Long-Term Liabilities

Table 10 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Capital leases payable	\$ 24,455,682	\$ 25,391,311	\$ (935,629)
Certificates of participation payable	51,120,000	52,415,000	(1,295,000)
Premium (discount) on debt issued	73,625	84,901	(11,276)
Severance benefits payable	5,344,468	5,273,972	70,496
Compensated absences payable	448,165	405,459	42,706
Net OPEB obligation	2,028,620	1,504,711	523,909
Net pension obligation	<u>190,778</u>	<u>180,378</u>	<u>10,400</u>
Total	<u>\$ 83,661,338</u>	<u>\$ 85,255,732</u>	<u>\$ (1,594,394)</u>

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

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

The District is dependent on selling services to independent school districts throughout the state of Minnesota for its revenue. The majority of this revenue is generated through services provided to the member independent school districts of the District. For the past few years, legislated revenue increases to these members for providing educational services have not been sufficient to meet instructional program needs and increased costs due to inflation. The District continuously endeavors to control costs, as demonstrated by the current fiscal year's financial statements, and also meet the needs of its member districts by providing specialized programs for their students.

One member district withdrew its membership as of June 30, 2011. Independent School District No. 271 (ISD No. 271) and the District continue to work with the Commissioner of Education to determine ISD No. 271's proportionate share of the District's assets and liabilities, if any.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Services Office, Intermediate District No. 287, 1820 North Xenium Lane, Plymouth, Minnesota 55441.

BASIC FINANCIAL STATEMENTS

INTERMEDIATE DISTRICT NO. 287

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

	Governmental Activities	
	2013	2012
<b>Assets</b>		
Cash and temporary investments	\$ 17,083,870	\$ 4,402,854
Receivables		
Accounts and interest	529,128	438,176
Due from other governmental units	13,803,145	22,795,497
Inventory	1,766	1,567
Prepaid items	78,993	102,751
Restricted assets – temporarily restricted		
Cash and investments for capital projects	–	2,384,859
Cash and investments for debt service	2,452,486	1,204,530
Capital assets, net of depreciation		
Not depreciated	10,870,335	42,709,014
Depreciated, net of accumulated depreciation	68,831,635	36,952,703
Total capital assets, net of accumulated depreciation	<u>79,701,970</u>	<u>79,661,717</u>
Total assets	<u>\$ 113,651,358</u>	<u>\$ 110,991,951</u>
<b>Liabilities</b>		
Aid anticipation certificates	\$ 9,900,000	\$ 5,900,000
Salaries and compensated absences payable	4,956,657	2,084,491
Accounts and contracts payable	848,524	2,616,417
Accrued interest payable	692,402	716,965
Due to other governmental units	1,715,595	4,269,450
Unearned revenue	262,456	90,560
Long-term liabilities		
Due within one year	3,007,793	3,093,367
Due in more than one year	80,653,545	82,162,365
Total long-term liabilities	<u>83,661,338</u>	<u>85,255,732</u>
Total liabilities	102,036,972	100,933,615
<b>Net position</b>		
Net investment in capital assets	4,052,663	2,465,210
Restricted for		
State funding restrictions	505,177	518,513
Debt service	2,520,724	1,338,459
Unrestricted	4,535,822	5,736,154
Total net position	<u>11,614,386</u>	<u>10,058,336</u>
Total liabilities and net position	<u>\$ 113,651,358</u>	<u>\$ 110,991,951</u>

See notes to basic financial statements



INTERMEDIATE DISTRICT NO. 287

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

Functions/Programs	2013			2012	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Career and technical education	\$ 1,545,389	\$ 1,434,675	\$ 16,550	\$ (94,164)	\$ (388,775)
Academic education	9,836,410	5,973,265	3,309,297	(553,848)	(61,812)
Special education	46,711,262	11,513,123	34,740,543	(457,596)	(51,625)
Student clubs	29,161	33,639	2,227	6,705	239
Administrative support services and operations and maintenance	15,030,687	5,562,997	10,872,746	1,405,056	(3,090,760)
Food service	590,030	75,209	267,919	(246,902)	(23,797)
Community service	221,269	100,333	–	(120,936)	21,285
Interest and fiscal charges on debt	4,044,542	–	–	(4,044,542)	(4,473,600)
<b>Total governmental activities</b>	<b>\$ 78,008,750</b>	<b>\$ 24,693,241</b>	<b>\$ 49,209,282</b>	<b>(4,106,227)</b>	<b>(8,068,845)</b>
General revenues					
General grants and aids				5,101,862	5,526,599
Other general revenues				489,972	38,435
Investment earnings				70,443	66,335
Total general revenues				<u>5,662,277</u>	<u>5,631,369</u>
Change in net position				1,556,050	(2,437,476)
Net position – beginning, as restated				<u>10,058,336</u>	<u>12,495,812</u>
Net position – ending				<u>\$ 11,614,386</u>	<u>\$ 10,058,336</u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

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

	<u>General Fund</u>	<u>Capital Projects – Building Construction Fund</u>	<u>Nonmajor Funds</u>
<b>Assets</b>			
Cash and temporary investments	\$ 16,575,108	\$ –	\$ 106,477
Cash and investments held by trustee	–	–	2,452,486
Receivables			
Accounts and interest	528,043	–	1,085
Due from other funds	2,603	–	–
Due from other governmental units	13,755,447	–	47,698
Inventory	–	–	1,766
Prepaid items	78,993	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
Total assets	<u>\$ 30,940,194</u>	<u>\$ –</u>	<u>\$ 2,609,512</u>
<b>Liabilities</b>			
Aid anticipation certificates	\$ 9,900,000	\$ –	\$ –
Salaries and compensated absences payable	4,948,621	–	3,269
Due to other funds	–	–	2,603
Accounts and contracts payable	800,913	–	47,611
Accrued interest payable	59,040	–	–
Due to other governmental units	1,683,652	–	31,943
Unearned revenue	259,094	–	3,362
	<u>17,651,320</u>	<u>–</u>	<u>88,788</u>
<b>Fund balances</b>			
Nonspendable	78,993	–	–
Restricted	466,255	–	2,520,724
Assigned	6,433,135	–	–
Unassigned	6,310,491	–	–
	<u>13,288,874</u>	<u>–</u>	<u>2,520,724</u>
Total fund balances	<u>13,288,874</u>	<u>–</u>	<u>2,520,724</u>
	<u>–</u>	<u>–</u>	<u>–</u>
Total liabilities and fund balances	<u>\$ 30,940,194</u>	<u>\$ –</u>	<u>\$ 2,609,512</u>

See notes to basic financial statements

Total Governmental Funds

2013	2012
\$ 16,681,585 2,452,486  529,128 2,603 13,803,145 1,766 78,993	\$ 4,088,140 3,589,389  438,176 – 22,795,497 1,567 102,751
\$ 33,549,706	\$ 31,015,520
\$ 9,900,000 4,951,890 2,603 848,524 59,040 1,715,595 262,456 17,740,108	\$ 5,900,000 2,075,315 – 2,616,417 60,214 4,269,450 90,560 15,011,956
78,993 2,986,979 6,433,135 6,310,491 15,809,598	102,751 2,519,460 7,193,393 6,187,960 16,003,564
\$ 33,549,706	\$ 31,015,520

INTERMEDIATE DISTRICT NO. 287

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2013

(With Partial Comparative Information as of June 30, 2012)

	<u>2013</u>	<u>2012</u>
Total fund balances – governmental funds	\$ 15,809,598	\$ 16,003,564
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	89,540,299	87,736,139
Accumulated depreciation	(9,838,329)	(8,074,422)
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.		
	(633,362)	(656,751)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Capital leases payable	(24,455,682)	(25,391,311)
Certificates of participation payable	(51,120,000)	(52,415,000)
Unamortized premium/discount on debt issued	(73,625)	(84,901)
Severance benefits payable	(5,344,468)	(5,273,972)
Compensated absences payable	(448,165)	(405,459)
Net other post-employment benefit obligation	(2,028,620)	(1,504,711)
Net pension obligation	(190,778)	(180,378)
The Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.		
	<u>397,518</u>	<u>305,538</u>
Total net position – governmental activities	<u>\$ 11,614,386</u>	<u>\$ 10,058,336</u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

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

	<u>General Fund</u>	<u>Capital Projects – Building Construction Fund</u>	<u>Nonmajor Funds</u>
<b>Revenue</b>			
Local sources			
Pass-through levies	\$ 2,974,288	\$ –	\$ 3,462,820
Tuition	18,994,895	–	32,192
Investment earnings	16,186	185	54,072
Other	4,415,033	98,400	143,350
State sources	46,793,472	–	9,432
Federal sources	667,828	–	1,897,529
Total revenue	<u>73,861,702</u>	<u>98,585</u>	<u>5,599,395</u>
<b>Expenditures</b>			
Current			
Career and technical education	1,469,157	–	–
Academic education	9,590,495	–	–
Special education	45,929,775	–	–
Student clubs	29,161	–	–
Administrative support services and operations and maintenance	14,831,725	–	–
Food service	–	–	590,030
Community service	–	–	221,434
Capital outlay	–	793,290	–
Debt service			
Principal	935,629	–	1,295,000
Interest and fiscal charges	1,400,538	–	2,678,669
Total expenditures	<u>74,186,480</u>	<u>793,290</u>	<u>4,785,133</u>
Excess (deficiency) of revenue over expenditures	(324,778)	(694,705)	814,262
<b>Other financing sources (uses)</b>			
Transfers in	–	–	346,925
Transfers (out)	(346,925)	–	–
Sale of assets	11,255	–	–
Total other financing sources (uses)	<u>(335,670)</u>	<u>–</u>	<u>346,925</u>
Net change in fund balances	(660,448)	(694,705)	1,161,187
<b>Fund balances</b>			
Beginning of year	<u>13,949,322</u>	<u>694,705</u>	<u>1,359,537</u>
End of year	<u>\$ 13,288,874</u>	<u>\$ –</u>	<u>\$ 2,520,724</u>

See notes to basic financial statements

Total Governmental Funds

2013	2012
\$ 6,437,108	\$ 6,388,575
19,027,087	19,704,701
70,443	66,335
4,656,783	6,317,748
46,802,904	47,054,729
2,565,357	4,048,709
79,559,682	83,580,797
1,469,157	1,942,868
9,590,495	9,531,159
45,929,775	46,157,010
29,161	28,059
14,831,725	19,816,486
590,030	364,196
221,434	215,126
793,290	26,403,270
2,230,629	2,194,087
4,079,207	4,487,915
79,764,903	111,140,176
(205,221)	(27,559,379)
346,925	23,797
(346,925)	(23,797)
11,255	15,900
11,255	15,900
(193,966)	(27,543,479)
16,003,564	43,547,043
\$ 15,809,598	\$ 16,003,564

INTERMEDIATE DISTRICT NO. 287

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

	<u>2013</u>	<u>2012</u>
Total net change in fund balances – governmental funds	\$ (193,966)	\$ (27,543,479)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	1,843,751	26,870,264
Depreciation expense	(1,797,361)	(1,120,521)
Repayment of long-term debt principal does not affect the change in net position. However, it reduces fund balances.		
Capital lease payable	935,629	889,087
Certificates of participation payable	1,295,000	1,305,000
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.		
	23,389	3,039
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.		
	(6,137)	(1,823,557)
The Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The change in net position of the Internal Service Fund is included in the governmental activities in the Statement of Activities.		
	91,980	82,245
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses or interest and fiscal charges.		
	11,276	11,276
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(70,496)	(542,124)
Compensated absences payable	(42,706)	(29,522)
Net other post-employment benefit obligation	(523,909)	(544,239)
Net pension obligation	(10,400)	5,055
Change in net position – governmental activities	<u>\$ 1,556,050</u>	<u>\$ (2,437,476)</u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

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

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ 3,857,208	\$ 3,596,032	\$ 2,974,288	\$ (621,744)
Tuition	21,516,486	19,725,173	18,994,895	(730,278)
Investment earnings	5,000	5,000	16,186	11,186
Other	2,679,810	3,852,495	4,415,033	562,538
State sources	46,745,126	47,532,619	46,793,472	(739,147)
Federal sources	811,379	786,172	667,828	(118,344)
Total revenue	<u>75,615,009</u>	<u>75,497,491</u>	<u>73,861,702</u>	<u>(1,635,789)</u>
<b>Expenditures</b>				
Current				
Career and technical education	1,852,750	1,505,121	1,469,157	(35,964)
Academic education	9,305,123	9,476,651	9,590,495	113,844
Special education	47,435,227	47,613,531	45,929,775	(1,683,756)
Student clubs	27,200	27,200	29,161	1,961
Administrative support services and operations and maintenance				
Annual costs	16,021,002	16,143,243	14,831,725	(1,311,518)
Debt service				
Principal	934,853	929,853	935,629	5,776
Interest and fiscal charges	1,409,726	1,408,403	1,400,538	(7,865)
Total expenditures	<u>76,985,881</u>	<u>77,104,002</u>	<u>74,186,480</u>	<u>(2,917,522)</u>
Excess (deficiency) of revenue over expenditures	(1,370,872)	(1,606,511)	(324,778)	1,281,733
<b>Other financing sources (uses)</b>				
Transfers (out)	(364,839)	(432,883)	(346,925)	85,958
Sale of assets	–	9,341	11,255	1,914
Total other financing sources (uses)	<u>(364,839)</u>	<u>(423,542)</u>	<u>(335,670)</u>	<u>87,872</u>
Net change in fund balances	<u>\$ (1,735,711)</u>	<u>\$ (2,030,053)</u>	<u>(660,448)</u>	<u>\$ 1,369,605</u>
<b>Fund balances</b>				
Beginning of year			<u>13,949,322</u>	
End of year			<u>\$ 13,288,874</u>	

See notes to basic financial statements



INTERMEDIATE DISTRICT NO. 287

Statement of Net Position  
Proprietary Fund  
Internal Service Fund  
as of June 30, 2013

(With Partial Comparative Information as of June 30, 2012)

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and temporary investments	\$ 402,285	\$ 314,714
Current liabilities		
Salaries and benefits payable	<u>4,767</u>	<u>9,176</u>
Net position		
Unrestricted	<u>\$ 397,518</u>	<u>\$ 305,538</u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

Statement of Revenue, Expenses, and Changes in Fund Net Position  
 Proprietary Fund  
 Internal Service Fund  
 Year Ended June 30, 2013  
 (With Partial Comparative Information for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Operating revenue		
Contributions from governmental funds	\$ 554,714	\$ 539,255
Operating expenses		
Dental benefit claims and expenses	<u>462,734</u>	<u>457,010</u>
Change in net position	91,980	82,245
Net position		
Beginning of year	<u>305,538</u>	<u>223,293</u>
End of year	<u><u>\$ 397,518</u></u>	<u><u>\$ 305,538</u></u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

Statement of Cash Flows  
 Proprietary Fund  
 Internal Service Fund  
 Year Ended June 30, 2013

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

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Received from assessments made to other funds	\$ 554,714	\$ 539,255
Payments for dental claims	<u>(467,143)</u>	<u>(456,878)</u>
Net cash provided by operating activities	87,571	82,377
Cash and temporary investments		
Beginning of year	<u>314,714</u>	<u>232,337</u>
End of year	<u><u>\$ 402,285</u></u>	<u><u>\$ 314,714</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 91,980	\$ 82,245
Increase (decrease) in claims payable	<u>(4,409)</u>	<u>132</u>
Net cash provided by operating activities	<u><u>\$ 87,571</u></u>	<u><u>\$ 82,377</u></u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

Statement of Fiduciary Net Position  
as of June 30, 2013

	Employee Benefit Trust Fund	Scholarship Private-Purpose Trust Fund	Agency Funds
<b>Assets</b>			
Cash and investments	\$ 61,904	\$ 138,153	\$ 220,940
Cash and investments held by trustee	-	-	1,632
Prepaid items	4,677	-	-
<b>Total assets</b>	<b>66,581</b>	<b>138,153</b>	<b>\$ 222,572</b>
<b>Liabilities</b>			
Accounts and contracts payable	55,124	-	\$ -
Due to other governmental units	-	-	222,572
<b>Total liabilities</b>	<b>55,124</b>	<b>-</b>	<b>\$ 222,572</b>
<b>Net position</b>			
Held in trust for flexible benefits	<u>\$ 11,457</u>		
Held in trust for scholarships		<u>\$ 138,153</u>	

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

	Employee Benefit Trust Fund	Scholarship Private-Purpose Trust Fund
<b>Additions</b>		
Plan member contributions	\$ 468,757	\$ -
Donations	-	50,073
<b>Total additions</b>	<b>468,757</b>	<b>50,073</b>
<b>Deductions</b>		
Benefits to plan members	472,716	-
Scholarships awarded	-	8,868
<b>Total deductions</b>	<b>472,716</b>	<b>8,868</b>
<b>Change in net position</b>	<b>(3,959)</b>	<b>41,205</b>
<b>Net position</b>		
Beginning of year	<u>15,416</u>	<u>96,948</u>
End of year	<u>\$ 11,457</u>	<u>\$ 138,153</u>

See notes to basic financial statements

INTERMEDIATE DISTRICT NO. 287

Notes to Basic Financial Statements  
June 30, 2013

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

**A. Organization**

The financial statements of Intermediate District No. 287 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District is an instrumentality of the state of Minnesota established to function as an educational institution. The District's Board of Directors is responsible for legislative and fiscal control of the District. A superintendent is appointed by the Board of Directors and is responsible for administrative control of the District.

**B. Reporting Entity**

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, district school boards can elect to either control or not control extracurricular activities. The District's Board of Directors has elected to exercise control over extracurricular activities; therefore, the extracurricular student activity accounts are included in the District's General Fund.

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

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. 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. Other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. The proprietary fund (Internal Service Fund) is presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the financial statement of the proprietary fund (Internal Service Fund) is consolidated into the governmental activities in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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 revenue of the District's Internal Service Fund is charges to employees for insurance. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District's only proprietary fund is the Internal Service Fund, which provides services to the governmental funds.

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

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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. Federal revenue is recorded in the year in which the related expenditure is made. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Other revenue is considered available if collected within 60 days after year-end. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and use the accrual basis of accounting as described earlier in these notes. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### Description of Funds

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

#### Major Governmental Funds

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The District has included in the General Fund subdivisions to account for revenue and expenditures for career and technical education, academic education, special education, district-wide (including administrative support services and operations and maintenance), severance and property, and student clubs.

**Capital Projects – Building Construction Fund** – The Capital Projects – Building Construction Fund is used to account for the financial resources used for the acquisition or construction of the major capital facilities authorized by debt issue.

#### Nonmajor Governmental Funds

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

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

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, debt principal, interest, and related costs.

#### Proprietary Fund

**Internal Service Fund** – The Internal Service Fund is used to account for and finance the uninsured risk of loss of the District’s employee dental plan.

#### Fiduciary Fund

**Employee Benefit Trust Fund** – The Employee Benefit Trust Fund is used to administer resources received and held by the District as the trustee for others. The Employee Benefit Trust Fund includes the District’s flexible benefit plan (Internal Revenue Code § 125 Cafeteria Plan).

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

**Scholarship Private-Purpose Trust Fund** – The Scholarship Private-Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties to award scholarships to students.

**Agency Funds** – Agency funds are established to account for cash and other assets held by the District as an agent for others. These funds are used to account for the transactions of the District's capital lease escrows for the South Education Construction Projects, Edgewood Building Projects, and the activities of the Keystone community services.

### **E. Budgeting**

Each June, the Board of Directors adopts an annual budget for the following fiscal year for the General Fund, Food Service Special Revenue Fund, Community Service Special Revenue Fund, Capital Projects – Building Construction Fund, and Debt Service Fund. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end.

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

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

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Agency Fund, the cash is restricted for Edgewood Building Projects. In the Debt Service Fund, the cash is restricted for debt payments. Interest earned on these investments was allocated directly to those accounts.

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

### **G. Receivables**

All receivables are shown net of any allowance for uncollectibles; however, no allowance has been recorded. The District believes all receivables are fully collectible within one year.

### **H. Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories are recorded as expenditures when items are used or sold.

### **I. Prepaid Items**

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



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

### **J. Capital Assets**

Capital assets are capitalized at historical cost or estimated historical cost for purchased or constructed assets. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary, ranging from 20 to 50 years for buildings, and 4 to 15 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 or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

### **K. Unearned Revenue**

Unearned revenue consists of tuition for fiscal 2014 online learning classes collected with spring registration, gifts and grants for the fiscal 2014 school year, and balances remaining in student lunch accounts.

### **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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

### **M. Compensated Absences Payable**

- 1. Vacation Pay** – Employees are entitled to vacation based on length of employment, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Vacation pay is accrued when earned or incurred in the government-wide financial statements. Unused vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.
- 2. Sick Pay** – Substantially all district employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of early retirement incentive and convertible sick leave payments for some employees upon termination.

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

### **N. Severance Benefits**

The District provides lump sum severance or retirement pay to eligible employees in accordance with provisions in certain collectively bargained contracts.

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

Severance or retirement benefits are required to be paid out over a 21-month period following the effective date of retirement. Retirement benefits for eligible teachers are paid into a post-employment healthcare savings plan, administered by the Minnesota State Retirement System. For other employees, severance benefits are paid into a pay deferral plan or healthcare savings plan as directed by the individual retirees. Severance is recorded as a liability in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future. Severance or retirement pay is accrued in the governmental fund financial statements only when it becomes due and payable.

### **O. Tuition Billings**

The District's policy is to recognize tuition revenue in the fiscal year that corresponds with the fiscal year in which the educational services are rendered to resident districts. Therefore, tuition revenue for the year ended June 30, 2013 represents services performed during the 2012–2013 fiscal year.

Special education, career and technical education, and academic tuition billings are based on a determination of the general education, categorical aids, prior legislative formulas for cooperation revenue, and any other pertinent levy dollars as provided by legislation to each student's resident local school district.

### **P. Risk Management**

- 1. General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal 2013.

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

**2. Self-Insurance** – The District has an Internal Service Fund to account for and finance its uninsured risk of loss for an employee dental plan. The Internal Service Fund is funded by the District, employee contributions, and interest income. The claims liability of \$4,767 reported in the Internal Service Fund at June 30, 2013 is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the loss can be reasonably estimated. Changes in the Internal Service Fund’s claim liability were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
June 30, 2013	\$ 9,176	\$ 462,734	\$ 467,143	\$ 4,767
June 30, 2012	\$ 9,044	\$ 457,010	\$ 456,878	\$ 9,176

**Q. Statement of Cash Flows**

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from time of purchase by the District of three months or less to be cash equivalents. The proprietary fund’s equity in the government-wide cash and investment management pool is considered to be cash equivalent.

**R. Restricted Assets**

Restricted assets are cash and cash equivalents and the related interest receivable whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements. In the fund financial statements these assets have been reported as “cash and investments held by trustee” while the interest receivable is included within accounts and interest receivable.

**S. Use of Estimates**

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

**T. Net Position**

In the government-wide financial statements, net position represent the difference between assets and liabilities. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### U. Fund Balance Classifications

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

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

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

When committed, assigned, or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) restricted, 2) committed, 3) assigned, and 4) unassigned .

### V. Prior Period Comparative Financial Information/Reclassification

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

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

### W. Changes in Accounting Principles

During the year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 created two new financial statement elements, *deferred outflows of resources* (a consumption of net position that is applicable to a future reporting period) and *deferred inflows of resources* (an acquisition of net position that is applicable to a future reporting period), which are distinct from assets and liabilities. It also defined *net position* as the residual of all other elements presented in a statement of net position (assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position). GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenses/expenditures), and items previously reported as liabilities that will now be reported as either deferred inflows of resources or inflows (revenues). Both standards require retroactive implementation, which resulted in the restatement of net position as of July 1, 2011 and for the year ended June 30, 2012. The net position of governmental activities in the government-wide financial statements as of July 1, 2011 was decreased by \$1,272,335 and expenses were decreased by \$416,948 for the year ended June 30, 2012. This change reflects the costs of debt issuance that were being deferred and amortized over the life of the debt issue, which are now reported as expense upon issuance under current guidance.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Deposits

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

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

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

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

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

At year-end, the carrying amount of the District’s deposits was \$4,900,418 while the balance on the bank records was \$4,900,418. At June 30, 2013, all deposits were insured or collateralized by securities held by the District’s agent in the District’s name.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### B. Cash on Hand

Cash in the possession of the District, consisting of petty cash and change funds, totaled \$300 at year-end.

### C. Investments

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

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District’s investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

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

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

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

Repurchase agreement	
Citigroup Global Markets	16.3%

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### D. Summary Information

The following table presents the District's deposit and investment balances at June 30, 2013, and information relating to potential investment risks:

Investment Type	Credit Risk		Interest	Carrying Value
	Credit Rating	Rating Agency	Rate Risk Maturity Date	
Repurchase agreement				
Citigroup Global Markets	N/A	N/A	> 10 years	\$ 2,452,471
Negotiable certificates of deposit	N/A	N/A	< 1 year	996,678
Investment pools/mutual funds				
Minnesota School District Liquid Asset Fund				
Liquid portfolio	AAA	S&P	N/A	5,792,861
Max portfolio	AAA	S&P	N/A	5,808,604
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	34
Wells Fargo Government Money Market Securities	AAA	S&P	N/A	1,632
Western Asset Institutional Government Reserve	AAA	S&P	N/A	5,987
Total investments				15,058,267
Deposits				4,900,418
Cash on hand				300
Total cash and investments				<u>\$ 19,958,985</u>

N/A – Not Applicable

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

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

Cash and temporary investments – Statement of Net Position	\$ 17,083,870
Restricted assets – cash and investments for debt service – Statement of Net Position	2,452,486
Cash and investments – Statement of Fiduciary Net Position	
Employee Benefit Trust Fund	61,904
Scholarship Private-Purpose Trust Fund	138,153
Agency Fund	220,940
Cash and investments held by trustee – Statement of Fiduciary Net Position	
Agency Fund	1,632
Total cash and investments	<u>\$ 19,958,985</u>

### NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	\$ 10,865,963	\$ –	\$ –	\$ –	\$ 10,865,963
Construction in progress	31,843,051	1,003,653	–	(32,842,332)	4,372
Total capital assets, not depreciated	42,709,014	1,003,653	–	(32,842,332)	10,870,335
Capital assets, depreciated					
Buildings	41,967,835	222,510	–	32,842,332	75,032,677
Equipment	3,059,290	617,588	(39,591)	–	3,637,287
Total capital assets, depreciated	45,027,125	840,098	(39,591)	32,842,332	78,669,964
Less accumulated depreciation for					
Buildings	(5,684,089)	(1,416,378)	–	–	(7,100,467)
Equipment	(2,390,333)	(380,983)	33,454	–	(2,737,862)
Total accumulated depreciation	(8,074,422)	(1,797,361)	33,454	–	(9,838,329)
Net capital assets, depreciated	36,952,703	(957,263)	(6,137)	32,842,332	68,831,635
Total capital assets, net	\$ 79,661,717	\$ 46,390	\$ (6,137)	\$ –	\$ 79,701,970

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

Career and technical education	\$ 18,669
Academic education	559,652
Special education	664,415
Administrative support services and operations and maintenance	554,625
Total depreciation expense	\$ 1,797,361

### NOTE 4 – SHORT-TERM BORROWING

The District's utilization of aid anticipation certificates for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	June 30, 2012	Additions	Retirements	June 30, 2013
07/26/2011	08/26/2012	1.10%	\$ 5,900,000	\$ –	\$ 5,900,000	\$ –
08/27/2012	09/30/2013	0.71%	–	9,900,000	–	9,900,000
			\$ 5,900,000	\$ 9,900,000	\$ 5,900,000	\$ 9,900,000

Interest and fiscal charges of \$69,135 were charged to the General Fund in fiscal 2013.



## NOTE 5 – LONG-TERM LIABILITIES

### A. Components and Changes in Long-Term Liabilities

	June 30, 2012	Additions	Retirements	June 30, 2013	Due Within One Year
Capital leases payable	\$ 25,391,311	\$ –	\$ 935,629	\$ 24,455,682	\$ 743,126
Certificates of participation payable	52,415,000	–	1,295,000	51,120,000	1,320,000
Unamortized premium/discount on debt issued	84,901	–	11,276	73,625	–
Severance benefits payable	5,273,972	484,319	413,823	5,344,468	496,502
Compensated absences payable	405,459	489,415	446,709	448,165	448,165
Net other post-employment benefit obligation (See Note 7)	1,504,711	1,090,783	566,874	2,028,620	–
Net pension obligation (See Note 8)	180,378	40,611	30,211	190,778	–
	<u>\$ 85,255,732</u>	<u>\$ 2,105,128</u>	<u>\$ 3,699,522</u>	<u>\$ 83,661,338</u>	<u>\$ 3,007,793</u>

### B. Descriptions of Long-Term Liabilities

#### 1. Capital Leases Payable – The following capital leases are outstanding as of June 30, 2013:

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
Capital leases payable					
North Vector	02/15/2005	5.37%	\$ 96,000	01/15/2025	\$ 68,814
South Education Center – construction	10/10/2006	5.30%	\$ 25,400,000	11/01/2032	24,386,868
Total capital leases payable					<u>\$ 24,455,682</u>

The assets acquired through the capital leases have been recorded in capital assets within building and equipment costs of \$24,386,868. The building and equipment costs are depreciated using the straight-line method over the life of the leases. The lease obligations will be repaid through the General Fund. Certain future pass-through levies of the member districts have been pledged for the payment of these capital leases.

#### 2. Certificates of Participation (COP) Payable – The following certificates of participation are outstanding as of June 30, 2013:

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
Certificates of participation payable					
Refunding Certificate of Participation – 2009A (Bren Road)	07/15/2009	1.65–5.00%	\$ 8,570,000	02/01/2025	\$ 6,720,000
Refunding Certificate of Participation – 2010C (SEC Land)	06/30/2010	2.00–4.25%	\$ 7,405,000	02/01/2028	6,625,000
Certificate of Participation – 2010A	01/07/2010	2.40%	\$ 3,200,000	02/01/2020	2,335,000
Certificate of Participation – 2010B (Build America Bonds – Direct Pay)	01/07/2010	5.48%	\$ 2,050,000	02/01/2025	2,050,000
Certificate of Participation – 2010E (Qualified School Construction Bonds – Direct Pay)	11/18/2010	6.00%	\$ 29,790,000	02/01/2029	29,790,000
Certificate of Participation – 2011A	05/19/2011	3.00–4.20%	\$ 4,075,000	02/01/2026	3,600,000
Total certificates of participation payable					<u>\$ 51,120,000</u>

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

The certificates of participation will be repaid by the Debt Service Fund. The District’s 2010B Certificates of Participation were issued as Build America Bonds – Direct Pay, for which the District will receive a federal tax credit equal to 35 percent of the interest payment on this debt issue. The District’s 2010E Certificates of Participation were issued as Qualified School Construction Bonds – Direct Pay, for which the District will receive a federal tax credit toward the interest payment on this debt issue. Certain future pass through levies of the member districts have been pledged for the payment of these certificates. A portion of the District’s annual payments are being held in an escrow account that is being held for payment of future debt service.

3. **Severance Benefits Payable** – Severance benefits payable consist of early retirement incentive benefits payable to former employees. Severance benefit liabilities are paid by the General Fund. Annual payments to retire the severance benefit liabilities have not been determined and will depend on actual employee turnover.
  
4. **Compensated Absences Payable** – Compensated absences payable represent accrued vacation payable at year-end. Compensated absences are paid by the General Fund. Annual payments to retire compensated absences payable have not been determined and will depend on employee turnover and actual employee absences.

**C. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire capital leases payable and certificates of participation are as follows:

Year Ending June 30,	Capital Leases		Certificates of Participation	
	Principal	Interest	Principal	Interest
2014	\$ 743,126	\$ 1,285,271	\$ 1,320,000	\$ 2,638,531
2015	782,998	1,245,398	1,360,000	2,599,106
2016	825,010	1,203,386	1,405,000	2,556,446
2017	869,277	1,159,120	1,450,000	2,510,756
2018	915,918	1,112,478	1,505,000	2,459,506
2019–2023	5,371,652	4,770,330	8,450,000	11,345,990
2024–2028	6,950,708	3,167,714	5,840,000	9,511,227
2029–2033	7,996,993	1,095,450	29,790,000	1,787,400
	<u>\$ 24,455,682</u>	<u>\$ 15,039,147</u>	<u>\$ 51,120,000</u>	<u>\$ 35,408,962</u>

## NOTE 6 – FUND BALANCES

### A. Classifications

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable			
Prepaid items	\$ 78,993	\$ –	\$ 78,993
Restricted			
Health and safety	94	–	94
Basic skills	193,425	–	193,425
Safe schools	272,736	–	272,736
Debt service	–	2,520,724	2,520,724
Total restricted	<u>466,255</u>	<u>2,520,724</u>	<u>2,986,979</u>
Assigned			
Severance	4,906,928	–	4,906,928
MDE appeal	473,897	–	473,897
Property	842,572	–	842,572
Student clubs	38,922	–	38,922
Vehicle depreciation	66,258	–	66,258
Self-insurance	88,049	–	88,049
Collaborative curriculum project	16,509	–	16,509
Total assigned	<u>6,433,135</u>	<u>–</u>	<u>6,433,135</u>
Unassigned	<u>6,310,491</u>	<u>–</u>	<u>6,310,491</u>
Total	<u>\$ 13,288,874</u>	<u>\$ 2,520,724</u>	<u>\$ 15,809,598</u>

### B. Fund Balance Policy

The Board of Directors has formally adopted a fund balance policy regarding the unassigned fund balance for the General Fund. The policy establishes that the District will endeavor to maintain an unassigned fund balance of at least 6 to 8 percent of the District’s General Fund operating budget, excluding operating capital programs. At June 30, 2013, the unassigned fund balance of the General Fund was 8.5 percent of total current year expenditures.

## **NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

### **A. Plan Description**

The District provides post-employment benefits to certain eligible employees through the District’s Other Post-Employment Benefits (OPEB) Plan, a single-employer defined benefit plan administered by the District. There are 774 active plan participants and 53 retired plan participants. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

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

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

### **B. Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District. There is no invested plan assets accumulated for payment of future benefits.

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

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

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

ARC	\$ 1,113,829
Interest on net OPEB obligation	51,699
Adjustment to ARC	<u>(74,745)</u>
Annual OPEB cost (expense)	1,090,783
Contributions made	<u>566,874</u>
Increase in net OPEB obligation	523,909
Net OPEB – beginning of year	<u>1,504,711</u>
Net OPEB – end of year	<u><u>\$ 2,028,620</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 821,151	\$ 497,792	60.6%	\$ 960,472
June 30, 2012	\$ 1,087,216	\$ 542,977	49.9%	\$ 1,504,711
June 30, 2013	\$ 1,090,783	\$ 566,874	52.0%	\$ 2,028,620

**D. Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$9,532,459, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,532,459. The covered payroll (annual payroll of active employees covered by the plan) was \$34,915,812, and the ratio of the UAAL to the covered payroll was 27.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) (CONTINUED)**

### **E. Actuarial Methods and Assumptions**

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; an inflation rate of 3.0 percent; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 10 years. The UAAL is being amortized on a level dollar basis over a 30-year open period.

## **NOTE 8 – PENSION BENEFITS PLAN**

### **A. Plan Description**

The District provides post-employment pension benefits to certain eligible employees through the District's Pension Benefits Plan, a single-employer defined benefit plan administered by the District. There are 65 active plan participants. All pension benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

The District offers pension benefits to several individuals and employee groups. Eligible employees (contracts stipulate a minimum number of years of service and a minimum age), can earn a lump sum pension benefit that differs by individual and bargaining unit. Some contracts also reduce the pension benefits by the total matching contribution made by the District to the employee's qualified retirement account over the course of that individual's employment with the District.

### **B. Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District. There is no invested plan assets accumulated for the payment of future benefits.

## NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)

### C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on ARC of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 27 and 50. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District's net pension obligation to the plan:

ARC	\$	43,432
Interest on net pension obligation		6,328
Adjustment to ARC		(9,149)
Annual pension cost (expense)		<u>40,611</u>
Contributions made		<u>30,211</u>
Increase in net pension obligation		10,400
Net pension obligation – beginning of year		<u>180,378</u>
Net pension obligation – end of year	\$	<u><u>190,778</u></u>

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the past three years are as follows:

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2011	\$ 46,497	\$ 6,351	13.7%	\$ 185,433
June 30, 2012	\$ 40,789	\$ 45,844	112.4%	\$ 180,378
June 30, 2013	\$ 40,611	\$ 30,211	74.4%	\$ 190,778

### D. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$409,117, and the actuarial value of assets was \$0, resulting in a UAAL of \$409,117. The covered payroll (annual payroll of active employees covered by the plan) was \$34,915,812 and the ratio of the UAAL to the covered payroll was 1.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)**

### **E. Actuarial Methods and Assumptions**

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; an inflation rate of 3.0 percent; and a 3.0 percent salary increase for all members. The UAAL is being amortized on a level dollar basis over a 30-year open period.

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

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

### **Teachers' Retirement Association (TRA)**

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

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

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



**NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**Tier I**

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

With these provisions:

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

**Tier II**

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

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

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

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

## **NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

### **B. Funding Policy**

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

The District's contributions for the years ended June 30, 2013, 2012, and 2011 were \$1,573,050, \$1,558,506, and \$1,367,156, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

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

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

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

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

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

## **NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

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

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

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

### **B. Funding Policy**

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

The District's contributions to the GERP for the years ended June 30, 2013, 2012, and 2011 were \$1,128,323, \$1,103,229, and \$990,611, respectively, equal to the contractually required contributions for each year as set by state statutes.

## **NOTE 10 – FLEXIBLE BENEFIT PLAN**

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

## NOTE 10 – FLEXIBLE BENEFIT PLAN (CONTINUED)

Before the beginning of the Plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

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

Amounts withheld for medical reimbursement and dependant care are paid by the District and maintained by an outside administrator on a monthly basis. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependant care activity is included in the financial statements as an Employee Benefit Trust Fund.

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

## NOTE 11 – OPERATING LEASES

The District is leasing equipment, buildings, and space in several locations. The District incurred costs of \$1,014,481 for operating leases during the year ended June 30, 2013. These leases are scheduled to expire on various dates through 2017. Many of the leases are negotiated on a yearly basis and payment commitments extend out one year. The following is a summary of minimum lease payment commitments for all operating leases:

Year Ending June 30,	Amount
2014	\$ 213,183
2015	88,072
2016	37,568
2017	33,379
	<u>\$ 372,202</u>

## NOTE 12 – INTERFUND TRANSFERS

### A. Interfund Transfers

At June 30, 2013, the District's Food Service Special Revenue Fund and Community Service Special Revenue Fund received a transfer in of \$246,902 and \$100,023, respectively, from the General Fund. This transfer was made to fund current year operations in these funds.

### B. Interfund Loans

At June 30, 2013, the District's Food Service Special Revenue Fund has an interfund payable to the General Fund of \$2,603. This loan was used to assist with cash flow needs.

## **NOTE 13 – COMMITMENTS AND CONTINGENCIES**

### **A. Federal and State Revenue**

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

### **B. Legal Contingencies**

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

### **C. Construction Contracts**

The District approved the bid for a construction contract on August 22, 2013 for the District Service Center remodel with commitments totaling \$466,000 under contract for which the work was not yet completed.

### **D. Member District Withdrawal**

Independent School District No. 271 (ISD No. 271) withdrew as a member of the District effective June 30, 2011. As a result of this withdrawal from the District, a distribution of assets and assignment of liabilities of the District to ISD No. 271 will be determined according to Minnesota Statute § 123A.24. As of June 30, 2013, this distribution of assets and assignment of liabilities is still in progress.

ISD No. 271 remains responsible for its share of debt incurred by the District according to Minnesota Statute § 123B.02. ISD No. 271 and the District may mutually agree, through a Board resolution by each, to terms and conditions of the distribution of assets and the assignment of liabilities.

If ISD No. 271 and the District cannot agree on the terms and conditions, the Commissioner of Education shall resolve the dispute by determining ISD No. 271's proportionate share of assets and liabilities based on ISD No. 271's enrollment, financial contribution, usage, or other factor or combination of factors determined appropriate by the Commissioner of Education. The assets, if any, must be disbursed to ISD No. 271 in a manner that minimizes financial disruption to the District.

### **E. State Tuition Billing Revenue**

At June 30, 2013, the District reported a balance due from other governmental units of approximately \$7.7 million related to amounts receivable from the MDE for state aids from the state's special education tuition billing process.

Special education state aid revenue includes amounts related to tuition billings to other school districts for special education services which are computed using formulas derived by the MDE. Because of the timing of the MDE's calculations, these final aid amounts for fiscal 2013 have not been finalized. The amount of the receivable and revenue recorded for fiscal 2013 for state special education aid is calculated using preliminary information available to the District.

The District has reported a \$473,897 assigned fund balance for MDE appeal in the General Fund related to this receivable balance. This was reported to recognize the potential for additional calculation changes in this aid category by the MDE.

REQUIRED SUPPLEMENTARY INFORMATION

INTERMEDIATE DISTRICT NO. 287

Schedules of Funding Progress  
June 30, 2013

The following schedules present trend information about the amounts contributed to the Other Post-Employment Benefits Plan and Pension Benefits Plan of Intermediate District No. 287:

**Other Post-Employment Benefits Plan**

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2006	\$ 3,789,783	\$ -	\$ 3,789,783	- %	\$ 32,746,105	11.6 %
July 1, 2009	\$ 7,189,279	\$ -	\$ 7,189,279	- %	\$ 33,086,201	21.7 %
July 1, 2011	\$ 9,532,459	\$ -	\$ 9,532,459	- %	\$ 34,915,812	27.3 %

**Pension Benefits Plan**

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2006	\$ 3,822,780	\$ -	\$ 3,822,780	- %	\$ 32,746,105	11.7 %
July 1, 2009	\$ 364,568	\$ -	\$ 364,568	- %	\$ 33,086,201	1.1 %
July 1, 2011	\$ 409,117	\$ -	\$ 409,117	- %	\$ 34,915,812	1.2 %

Note: The actuary reclassified certain healthcare benefits to the OPEB Plan from the Pension Benefits Plan in the July 1, 2009 actuarial valuation.

SUPPLEMENTAL INFORMATION



INTERMEDIATE DISTRICT NO. 287

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

	Food Service Special Revenue Fund	Community Service Special Revenue Fund	Debt Service Fund	Total
<b>Assets</b>				
Cash and temporary investments	\$ -	\$ 38,239	\$ 68,238	\$ 106,477
Cash and investments held by trustee	-	-	2,452,486	2,452,486
Receivables				
Accounts and interest	50	1,035	-	1,085
Due from other governmental units	46,542	1,156	-	47,698
Inventory	1,766	-	-	1,766
	<u>48,358</u>	<u>40,430</u>	<u>2,520,724</u>	<u>2,609,512</u>
<b>Total assets</b>	<b>\$ 48,358</b>	<b>\$ 40,430</b>	<b>\$ 2,520,724</b>	<b>\$ 2,609,512</b>
<b>Liabilities</b>				
Salaries and compensated absences payable	\$ 3,269	\$ -	\$ -	\$ 3,269
Due to other funds	2,603	-	-	2,603
Accounts and contracts payable	7,181	40,430	-	47,611
Due to other governmental units	31,943	-	-	31,943
Unearned revenue	3,362	-	-	3,362
<b>Total liabilities</b>	<u>48,358</u>	<u>40,430</u>	<u>-</u>	<u>88,788</u>
<b>Fund balances</b>				
Restricted	-	-	2,520,724	2,520,724
	<u>-</u>	<u>-</u>	<u>2,520,724</u>	<u>2,520,724</u>
<b>Total liabilities and fund balances</b>	<b>\$ 48,358</b>	<b>\$ 40,430</b>	<b>\$ 2,520,724</b>	<b>\$ 2,609,512</b>

INTERMEDIATE DISTRICT NO. 287

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

	Food Service Special Revenue Fund	Community Service Special Revenue Fund	Debt Service Fund	Total
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ -	\$ -	\$ 3,462,820	\$ 3,462,820
Tuition	-	32,192	-	32,192
Investment earnings	-	-	54,072	54,072
Other	75,209	68,141	-	143,350
State sources	9,432	-	-	9,432
Federal sources	258,487	-	1,639,042	1,897,529
Total revenue	<u>343,128</u>	<u>100,333</u>	<u>5,155,934</u>	<u>5,599,395</u>
<b>Expenditures</b>				
Current				
Food service	590,030	-	-	590,030
Community service	-	221,434	-	221,434
Debt service	-	-	3,973,669	3,973,669
Total expenditures	<u>590,030</u>	<u>221,434</u>	<u>3,973,669</u>	<u>4,785,133</u>
Excess (deficiency) of revenue over expenditures	(246,902)	(121,101)	1,182,265	814,262
<b>Other financing sources</b>				
Transfers in	<u>246,902</u>	<u>100,023</u>	<u>-</u>	<u>346,925</u>
Net change in fund balance	-	(21,078)	1,182,265	1,161,187
<b>Fund balances</b>				
Beginning of year	<u>-</u>	<u>21,078</u>	<u>1,338,459</u>	<u>1,359,537</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,520,724</u>	<u>\$ 2,520,724</u>

INTERMEDIATE DISTRICT NO. 287

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ 16,575,108	\$ 3,920,864
Receivables		
Accounts and interest	528,043	435,926
Due from other funds	2,603	-
Due from other governmental units	13,755,447	22,721,913
Prepaid items	<u>78,993</u>	<u>102,751</u>
Total assets	<u>\$ 30,940,194</u>	<u>\$ 27,181,454</u>
<b>Liabilities</b>		
Aid anticipation certificates	\$ 9,900,000	\$ 5,900,000
Salaries and compensated absences payable	4,948,621	2,073,243
Accounts and contracts payable	800,913	886,098
Accrued interest payable	59,040	60,214
Due to other governmental units	1,683,652	4,227,490
Unearned revenue	<u>259,094</u>	<u>85,087</u>
Total liabilities	17,651,320	13,232,132
<b>Fund balances</b>		
Nonspendable for prepaid items	78,993	102,751
Restricted for health and safety	94	1,236
Restricted for basic skills	193,425	193,426
Restricted for safe schools	272,736	270,556
Assigned for severance	4,906,928	4,249,794
Assigned for MDE appeal	473,897	973,897
Assigned for property	842,572	771,861
Assigned for student clubs	38,922	32,217
Assigned for NEC	-	1,031,720
Assigned for vehicle depreciation	66,258	45,855
Assigned for self-insurance	88,049	88,049
Assigned for collaborative curriculum project	16,509	-
Unassigned	<u>6,310,491</u>	<u>6,187,960</u>
Total fund balances	<u>13,288,874</u>	<u>13,949,322</u>
Total liabilities and fund balances	<u>\$ 30,940,194</u>	<u>\$ 27,181,454</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ 3,596,032	\$ 2,974,288	\$ (621,744)	\$ 2,825,406
Tuition	19,725,173	18,994,895	(730,278)	19,647,575
Investment earnings	5,000	16,186	11,186	12,498
Other	3,852,495	4,415,033	562,538	6,087,217
State sources	47,532,619	46,793,472	(739,147)	47,049,421
Federal sources	786,172	667,828	(118,344)	1,672,281
Total revenue	<u>75,497,491</u>	<u>73,861,702</u>	<u>(1,635,789)</u>	<u>77,294,398</u>
<b>Expenditures</b>				
Current				
Career and technical education	1,505,121	1,469,157	(35,964)	1,942,868
Academic education	9,476,651	9,590,495	113,844	9,531,159
Special education	47,613,531	45,929,775	(1,683,756)	46,157,010
Student clubs	27,200	29,161	1,961	28,059
Administrative support services and operations and maintenance				
Annual costs	16,143,243	14,831,725	(1,311,518)	14,928,380
Tuition refund	—	—	—	4,888,106
Debt service				
Principal	929,853	935,629	5,776	889,087
Interest and fiscal charges	1,408,403	1,400,538	(7,865)	1,460,185
Total expenditures	<u>77,104,002</u>	<u>74,186,480</u>	<u>(2,917,522)</u>	<u>79,824,854</u>
Excess (deficiency) of revenue over expenditures	(1,606,511)	(324,778)	1,281,733	(2,530,456)
Other financing sources (uses)				
Transfers (out)	(432,883)	(346,925)	85,958	(23,797)
Sale of assets	9,341	11,255	1,914	15,900
Total other financing sources (uses)	<u>(423,542)</u>	<u>(335,670)</u>	<u>87,872</u>	<u>(7,897)</u>
Net change in fund balances	<u>\$ (2,030,053)</u>	<u>(660,448)</u>	<u>\$ 1,369,605</u>	<u>(2,538,353)</u>
<b>Fund balances</b>				
Beginning of year		<u>13,949,322</u>		<u>16,487,675</u>
End of year		<u>\$ 13,288,874</u>		<u>\$ 13,949,322</u>

INTERMEDIATE DISTRICT NO. 287

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account  
 Year Ended June 30, 2013

	Career and Technical <u>Education Account</u>	Academic <u>Education Account</u>	Special <u>Education Account</u>
<b>Revenue</b>			
Local sources			
Pass-through levies	\$ 132,582	\$ 53,013	\$ -
Tuition	1,301,653	4,834,677	11,403,971
Investment earnings	112	-	9,729
Other	1,823	2,174,895	124,390
State sources	-	2,247,105	34,732,567
Federal sources	16,550	3,000	-
Total revenue	<u>1,452,720</u>	<u>9,312,690</u>	<u>46,270,657</u>
<b>Expenditures</b>			
Current			
Career and technical education	1,469,157	-	-
Academic education	-	9,590,495	-
Special education	-	-	45,929,775
Student clubs	-	-	-
Administrative support services and operations and maintenance	-	-	-
Debt service			
Principal	23,265	16,815	147,422
Interest and fiscal charges	837	605	5,306
Total expenditures	<u>1,493,259</u>	<u>9,607,915</u>	<u>46,082,503</u>
Excess (deficiency) of revenue over expenditures	(40,539)	(295,225)	188,154
<b>Other financing sources (uses)</b>			
Intrafund transfers	-	-	(1,060,066)
Transfers (out)	-	-	-
Sale of assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,060,066)</u>
Net change in fund balances	(40,539)	(295,225)	(871,912)
<b>Fund balances (deficit)</b>			
Beginning of year	<u>111,543</u>	<u>151,156</u>	<u>7,028,081</u>
End of year	<u>\$ 71,004</u>	<u>\$ (144,069)</u>	<u>\$ 6,156,169</u>

<u>District-Wide Account</u>	<u>Severance and Property Account</u>	<u>Student Clubs Account</u>	<u>Total</u>
\$ 2,788,693	\$ -	\$ -	\$ 2,974,288
1,454,594	-	-	18,994,895
6,345	-	-	16,186
2,078,059	-	35,866	4,415,033
9,813,800	-	-	46,793,472
648,278	-	-	667,828
<u>16,789,769</u>	<u>-</u>	<u>35,866</u>	<u>73,861,702</u>
-	-	-	1,469,157
-	-	-	9,590,495
-	-	-	45,929,775
-	-	29,161	29,161
14,815,679	16,046	-	14,831,725
748,127	-	-	935,629
1,393,790	-	-	1,400,538
<u>16,957,596</u>	<u>16,046</u>	<u>29,161</u>	<u>74,186,480</u>
(167,827)	(16,046)	6,705	(324,778)
316,175	743,891	-	-
(346,925)	-	-	(346,925)
11,255	-	-	11,255
<u>(19,495)</u>	<u>743,891</u>	<u>-</u>	<u>(335,670)</u>
(187,322)	727,845	6,705	(660,448)
<u>1,604,670</u>	<u>5,021,655</u>	<u>32,217</u>	<u>13,949,322</u>
<u>\$ 1,417,348</u>	<u>\$ 5,749,500</u>	<u>\$ 38,922</u>	<u>\$ 13,288,874</u>

INTERMEDIATE DISTRICT NO. 287

General Fund – Career and Technical Education Account  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual

Year Ended June 30, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ 125,000	\$ 132,582	\$ 7,582	\$ 95,289
Tuition	1,262,575	1,301,653	39,078	1,371,317
Investment earnings	–	112	112	293
Other	–	1,823	1,823	228,535
Federal sources	13,050	16,550	3,500	6,299
Total revenue	<u>1,400,625</u>	<u>1,452,720</u>	<u>52,095</u>	<u>1,701,733</u>
<b>Expenditures</b>				
Career and technical education				
Salaries and wages	1,031,416	1,002,111	(29,305)	1,224,919
Employee benefits	221,428	242,193	20,765	288,156
Purchased services	153,813	158,472	4,659	340,655
Supplies and materials	87,914	64,419	(23,495)	70,336
Capital expenditures	10,400	1,600	(8,800)	10,522
Other	150	362	212	8,280
Debt service				
Principal	23,265	23,265	–	22,192
Interest and fiscal charges	837	837	–	1,911
Total expenditures	<u>1,529,223</u>	<u>1,493,259</u>	<u>(35,964)</u>	<u>1,966,971</u>
Excess (deficiency) of revenue over expenditures	(128,598)	(40,539)	88,059	(265,238)
<b>Other financing sources (uses)</b>				
Intrafund transfers	–	–	–	41,266
Net change in fund balances	<u>\$ (128,598)</u>	<u>(40,539)</u>	<u>\$ 88,059</u>	<u>(223,972)</u>
<b>Fund balances</b>				
Beginning of year		<u>111,543</u>		<u>335,515</u>
End of year		<u>\$ 71,004</u>		<u>\$ 111,543</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ 126,000	\$ 53,013	\$ (72,987)	\$ 162,905
Tuition	5,402,803	4,834,677	(568,126)	5,124,259
Other	2,173,567	2,174,895	1,328	2,080,304
State sources	1,697,997	2,247,105	549,108	1,888,238
Federal sources	–	3,000	3,000	472,693
Total revenue	<u>9,400,367</u>	<u>9,312,690</u>	<u>(87,677)</u>	<u>9,728,399</u>
<b>Expenditures</b>				
Academic education				
Salaries and wages	6,079,743	6,140,096	60,353	6,048,383
Employee benefits	1,989,191	1,919,631	(69,560)	1,721,178
Purchased services	1,209,331	1,292,924	83,593	1,303,213
Supplies and materials	107,083	148,304	41,221	184,777
Capital expenditures	11,731	15,168	3,437	137,720
Other	79,572	74,372	(5,200)	135,888
Debt service				
Principal	11,039	16,815	5,776	16,039
Interest and fiscal charges	605	605	–	1,381
Total expenditures	<u>9,488,295</u>	<u>9,607,915</u>	<u>119,620</u>	<u>9,548,579</u>
Excess (deficiency) of revenue over expenditures	(87,928)	(295,225)	(207,297)	179,820
<b>Other financing sources (uses)</b>				
Intrafund transfers	–	–	–	755,410
Net change in fund balances	<u>\$ (87,928)</u>	<u>(295,225)</u>	<u>\$ (207,297)</u>	935,230
<b>Fund balances (deficit)</b>				
Beginning of year		<u>151,156</u>		<u>(784,074)</u>
End of year		<u>\$ (144,069)</u>		<u>\$ 151,156</u>



INTERMEDIATE DISTRICT NO. 287

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

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Local sources				
Tuition	\$ 11,624,056	\$ 11,403,971	\$ (220,085)	\$ 11,593,677
Investment earnings	5,000	9,729	4,729	8,248
Other	32,098	124,390	92,292	184,479
State sources	35,390,302	34,732,567	(657,735)	35,502,718
Total revenue	<u>47,051,456</u>	<u>46,270,657</u>	<u>(780,799)</u>	<u>47,289,122</u>
<b>Expenditures</b>				
Special education				
Current				
Salaries and wages	31,958,779	31,189,492	(769,287)	31,877,015
Employee benefits	12,042,316	11,400,122	(642,194)	11,126,176
Purchased services	2,016,483	1,879,875	(136,608)	1,644,424
Supplies and materials	541,182	505,052	(36,130)	500,688
Capital expenditures	216,877	198,810	(18,067)	280,584
Other	837,894	756,424	(81,470)	728,123
Debt service				
Principal	147,422	147,422	–	140,620
Interest and fiscal charges	5,306	5,306	–	12,108
Total expenditures	<u>47,766,259</u>	<u>46,082,503</u>	<u>(1,683,756)</u>	<u>46,309,738</u>
Excess (deficiency) of revenue over expenditures	(714,803)	188,154	902,957	979,384
<b>Other financing sources (uses)</b>				
Intrafund transfers	–	(1,060,066)	(1,060,066)	(487,930)
Sale of assets	–	–	–	13,110
Total other financing sources (uses)	<u>–</u>	<u>(1,060,066)</u>	<u>(1,060,066)</u>	<u>(474,820)</u>
Net change in fund balances	<u>\$ (714,803)</u>	<u>(871,912)</u>	<u>\$ (157,109)</u>	<u>504,564</u>
<b>Fund balances</b>				
Beginning of year		<u>7,028,081</u>		<u>6,523,517</u>
End of year		<u>\$ 6,156,169</u>		<u>\$ 7,028,081</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
<b>Revenue</b>				
Local sources				
Pass-through levies	\$ 3,345,032	\$ 2,788,693	\$ (556,339)	\$ 2,567,212
Tuition	1,435,739	1,454,594	18,855	1,558,322
Investment earnings (charges)	–	6,345	6,345	3,957
Other	1,619,630	2,078,059	458,429	3,565,601
State sources	10,444,320	9,813,800	(630,520)	9,658,465
Federal sources	773,122	648,278	(124,844)	1,193,289
Total revenue	<u>17,617,843</u>	<u>16,789,769</u>	<u>(828,074)</u>	<u>18,546,846</u>
<b>Expenditures</b>				
Current				
Administrative support services and operations and maintenance				
Salaries and wages	5,293,660	5,198,644	(95,016)	4,894,919
Employee benefits	1,774,481	1,666,513	(107,968)	1,597,805
Purchased services	6,333,246	5,320,672	(1,012,574)	6,492,341
Supplies and materials	434,139	458,653	24,514	388,797
Capital expenditures	2,119,033	2,024,367	(94,666)	1,380,531
Other	172,638	146,830	(25,808)	173,987
Tuition refund	–	–	–	4,888,106
Debt service				
Principal	748,127	748,127	–	710,236
Interest and fiscal charges	1,401,655	1,393,790	(7,865)	1,444,785
Total expenditures	<u>18,276,979</u>	<u>16,957,596</u>	<u>(1,319,383)</u>	<u>21,971,507</u>
Excess (deficiency) of revenue over expenditures	(659,136)	(167,827)	491,309	(3,424,661)
<b>Other financing sources (uses)</b>				
Intrafund transfers	–	316,175	316,175	(1,022,549)
Transfers (out)	(432,883)	(346,925)	85,958	(23,797)
Sale of assets	9,341	11,255	1,914	2,790
Total other financing sources (uses)	<u>(423,542)</u>	<u>(19,495)</u>	<u>404,047</u>	<u>(1,043,556)</u>
Net change in fund balances	<u>\$ (1,082,678)</u>	<u>(187,322)</u>	<u>\$ 895,356</u>	<u>(4,468,217)</u>
<b>Fund balances</b>				
Beginning of year		<u>1,604,670</u>		<u>6,072,887</u>
End of year		<u>\$ 1,417,348</u>		<u>\$ 1,604,670</u>

INTERMEDIATE DISTRICT NO. 287

General Fund – Severance and Property Account  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual

Year Ended June 30, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources	\$ -	\$ -	\$ -	\$ -
Expenditures				
Current				
Administrative support services and operations and maintenance				
Allocated costs	<u>16,046</u>	<u>16,046</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over expenditures	(16,046)	(16,046)	-	-
Other financing sources				
Intrafund transfers	<u>-</u>	<u>743,891</u>	<u>743,891</u>	<u>713,803</u>
Net change in fund balances	<u>\$ (16,046)</u>	<u>727,845</u>	<u>\$ 743,891</u>	<u>713,803</u>
Fund balances				
Beginning of year		<u>5,021,655</u>		<u>4,307,852</u>
End of year		<u>\$ 5,749,500</u>		<u>\$ 5,021,655</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other	\$ 27,200	\$ 35,866	\$ 8,666	\$ 28,298
Expenditures				
Current				
Student clubs				
Pupil support services	<u>27,200</u>	<u>29,161</u>	<u>1,961</u>	<u>28,059</u>
Net change in fund balances	<u>\$ -</u>	<u>6,705</u>	<u>\$ 6,705</u>	<u>239</u>
Fund balances				
Beginning of year		<u>32,217</u>		<u>31,978</u>
End of year		<u>\$ 38,922</u>		<u>\$ 32,217</u>

INTERMEDIATE DISTRICT NO. 287

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ -	\$ 11,578
Receivables		
Accounts and interest	50	-
Due from other governmental units	46,542	38,367
Inventory	<u>1,766</u>	<u>1,567</u>
 Total assets	 <u>\$ 48,358</u>	 <u>\$ 51,512</u>
<b>Liabilities</b>		
Salaries and compensated absences payable	\$ 3,269	\$ 866
Due to other funds	2,603	-
Accounts and contracts payable	7,181	5,463
Due to other governmental units	31,943	41,960
Unearned revenue	<u>3,362</u>	<u>3,223</u>
 Total liabilities	 <u>\$ 48,358</u>	 <u>\$ 51,512</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other – primarily meal sales	\$ 57,850	\$ 75,209	\$ 17,359	\$ 45,675
State sources	8,135	9,432	1,297	5,308
Federal sources	209,233	258,487	49,254	289,416
Total revenue	<u>275,218</u>	<u>343,128</u>	<u>67,910</u>	<u>340,399</u>
Expenditures				
Current				
Food service	<u>614,905</u>	<u>590,030</u>	<u>(24,875)</u>	<u>364,196</u>
Excess (deficiency) of revenue over expenditures	(339,687)	(246,902)	92,785	(23,797)
Other financing sources				
Transfers in	<u>339,687</u>	<u>246,902</u>	<u>(92,785)</u>	<u>23,797</u>
Net change in fund balances	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Fund balances				
Beginning of year		<u>-</u>		<u>-</u>
End of year		<u>\$ -</u>		<u>\$ -</u>

INTERMEDIATE DISTRICT NO. 287

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

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and temporary investments	\$ 38,239	\$ 21,769
Receivables		
Accounts and interest	1,035	2,250
Due from other governmental units	<u>1,156</u>	<u>35,217</u>
 Total assets	 <u>\$ 40,430</u>	 <u>\$ 59,236</u>
<b>Liabilities</b>		
Salaries and compensated absences payable	\$ -	\$ 1,206
Accounts and contracts payable	40,430	34,702
Unearned revenue	<u>-</u>	<u>2,250</u>
Total liabilities	40,430	38,158
<b>Fund balances</b>		
Restricted	<u>-</u>	<u>21,078</u>
 Total liabilities and fund balances	 <u>\$ 40,430</u>	 <u>\$ 59,236</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Tuition	\$ 49,000	\$ 32,192	\$ (16,808)	\$ 55,743
Other	70,000	68,141	(1,859)	56,876
Federal sources	—	—	—	123,582
Total revenue	<u>119,000</u>	<u>100,333</u>	<u>(18,667)</u>	<u>236,201</u>
Expenditures				
Current				
Community service	<u>233,274</u>	<u>221,434</u>	<u>(11,840)</u>	<u>215,126</u>
Excess (deficiency) of revenue over expenditures	(114,274)	(121,101)	(6,827)	21,075
Other financing sources				
Transfers in	<u>93,196</u>	<u>100,023</u>	<u>6,827</u>	<u>—</u>
Net change in fund balances	<u>\$ (21,078)</u>	<u>(21,078)</u>	<u>\$ —</u>	<u>21,075</u>
Fund balances				
Beginning of year		<u>21,078</u>		<u>3</u>
End of year		<u>\$ —</u>		<u>\$ 21,078</u>



INTERMEDIATE DISTRICT NO. 287

Capital Projects – Building Construction Fund  
 Comparative Balance Sheet  
 as of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and investments held by trustee	<u>\$           –</u>	<u>\$ 2,384,859</u>
Liabilities		
Accounts and contracts payable	\$           –	\$ 1,690,154
Fund balances		
Restricted for building projects	<u>                  –</u>	<u>          694,705</u>
Total liabilities and fund balances	<u>\$           –</u>	<u>\$ 2,384,859</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 207	\$ 185	\$ (22)	\$ 43,176
Other	98,400	98,400	–	–
Total revenue	<u>98,607</u>	<u>98,585</u>	<u>(22)</u>	<u>43,176</u>
Expenditures				
Capital outlay				
Capital expenditures	<u>793,312</u>	<u>793,290</u>	<u>(22)</u>	<u>26,403,270</u>
Net change in fund balances	<u>\$ (694,705)</u>	<u>(694,705)</u>	<u>\$ –</u>	<u>(26,360,094)</u>
Fund balances				
Beginning of year		<u>694,705</u>		<u>27,054,799</u>
End of year		<u>\$ –</u>		<u>\$ 694,705</u>

INTERMEDIATE DISTRICT NO. 287

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

	<u>2013</u>	<u>2012</u>
Assets		
Cash and temporary investments	\$ 68,238	\$ 133,929
Cash and investments held by trustee	<u>2,452,486</u>	<u>1,204,530</u>
Total assets	<u>\$ 2,520,724</u>	<u>\$ 1,338,459</u>
Fund balances		
Restricted for debt service	<u>\$ 2,520,724</u>	<u>\$ 1,338,459</u>

INTERMEDIATE DISTRICT NO. 287

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

	2013		Over (Under) Budget	2012
	Budget	Actual		Actual
Revenue				
Local sources				
Pass-through levies	\$ 3,467,625	\$ 3,462,820	\$ (4,805)	\$ 3,563,169
Investment earnings	56,571	54,072	(2,499)	10,661
Other	—	—	—	129,363
Federal sources	1,639,042	1,639,042	—	1,963,430
Total revenue	<u>5,163,238</u>	<u>5,155,934</u>	<u>(7,304)</u>	<u>5,666,623</u>
Expenditures				
Debt service				
Principal	1,295,000	1,295,000	—	1,305,000
Interest	2,671,869	2,671,869	—	3,021,130
Fiscal charges and other	6,800	6,800	—	6,600
Total expenditures	<u>3,973,669</u>	<u>3,973,669</u>	<u>—</u>	<u>4,332,730</u>
Net change in fund balances	<u>\$ 1,189,569</u>	1,182,265	<u>\$ (7,304)</u>	1,333,893
Fund balances				
Beginning of year		<u>1,338,459</u>		<u>4,566</u>
End of year		<u>\$ 2,520,724</u>		<u>\$ 1,338,459</u>

INTERMEDIATE DISTRICT NO. 287

Combining Statement of Fiduciary Net Position  
 Agency Funds  
 as of June 30, 2013

	South Education Construction	Keystone	Edgewood Building	Total
Assets				
Cash and investments	\$ 220,940	\$ -	\$ -	\$ 220,940
Cash and investments held by trustee	-	-	1,632	1,632
	<u>220,940</u>	<u>-</u>	<u>1,632</u>	<u>222,572</u>
Total assets	<u>\$ 220,940</u>	<u>\$ -</u>	<u>\$ 1,632</u>	<u>\$ 222,572</u>
Liabilities				
Due to other governmental units	<u>\$ 220,940</u>	<u>\$ -</u>	<u>\$ 1,632</u>	<u>\$ 222,572</u>

INTERMEDIATE DISTRICT NO. 287

Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2013

	Balance – July 1, 2012	Additions	Deletions	Balance – June 30, 2013
<b>South Education Construction</b>				
Assets				
Cash and investments	\$ 521,802	\$ –	\$ 300,862	\$ 220,940
Liabilities				
Due to other governmental units	\$ 521,802	\$ –	\$ 300,862	\$ 220,940
<b>Keystone</b>				
Assets				
Cash and investments	\$ 106,190	\$ –	\$ 106,190	\$ –
Liabilities				
Accounts and contracts payable	\$ 17,682	\$ –	\$ 17,682	\$ –
Due to other governmental units	88,508	–	88,508	–
Total liabilities	\$ 106,190	\$ –	\$ 106,190	\$ –
<b>Edgewood</b>				
Assets				
Cash and investments held by trustee	\$ 2,632	\$ –	\$ 1,000	\$ 1,632
Liabilities				
Due to other governmental units	\$ 2,632	\$ –	\$ 1,000	\$ 1,632
<b>Totals</b>				
Assets				
Cash and investments	\$ 627,992	\$ –	\$ 407,052	\$ 220,940
Cash and investments held by trustee	2,632	–	1,000	1,632
Total assets	\$ 630,624	\$ –	\$ 408,052	\$ 222,572
Liabilities				
Accounts and contracts payable	\$ 17,682	\$ –	\$ 17,682	\$ –
Due to other governmental units	612,942	–	390,370	222,572
Total liabilities	\$ 630,624	\$ –	\$ 408,052	\$ 222,572

OTHER DISTRICT INFORMATION

INTERMEDIATE DISTRICT NO. 287

Government-Wide Revenue by Type  
Last Ten Fiscal Years

Year Ended June 30,	Program Revenues		General Revenues	Total
	Charges for Services	Operating Grants and Contributions		
2004	\$ 41,996,429 92.5%	\$ 2,756,719 6.1%	\$ 623,995 1.4%	\$ 45,377,143 100.0%
2005	47,413,226 94.5%	2,293,614 4.6%	439,826 0.9%	50,146,666 100.0%
2006	49,930,353 90.6%	2,906,526 5.3%	2,260,010 4.1%	55,096,889 100.0%
2007	55,612,063 94.9%	2,103,610 3.6%	897,863 1.5%	58,613,536 100.0%
2008	56,134,852 94.3%	2,250,947 3.8%	1,112,200 1.9%	59,497,999 100.0%
2009	36,419,310 51.4%	34,258,992 48.4%	160,493 0.2%	70,838,795 100.0%
2010	32,677,313 46.7%	37,212,152 53.1%	205,766 0.2%	70,095,231 100.0%
2011	31,551,418 39.1%	47,437,971 58.8%	1,655,682 2.1%	80,645,071 100.0%
2012	25,187,923 30.8%	50,953,848 62.3%	5,631,369 6.9%	81,773,140 100.0%
2013	24,693,241 31.0%	49,209,282 61.9%	5,662,277 7.1%	79,564,800 100.0%

Note: In fiscal 2009, the state of Minnesota converted special education tuition billing to a state-wide system. This caused the charges for services to be converted to operating grants and contributions.



INTERMEDIATE DISTRICT NO. 287

Government-Wide Expenses by Function  
Last Ten Fiscal Years

Year Ended June 30,	Career and Technical Education	Academic Education	Special Education	Student Clubs	Administrative Support Services and Operations and Maintenance
2004	\$ 4,588,551 9.4%	\$ 6,330,023 13.1%	\$ 32,740,095 67.4%	\$ 33,366 0.1%	\$ 4,622,662 9.5%
2005	4,219,192 8.2%	6,405,770 12.5%	35,375,418 68.9%	41,228 0.1%	4,577,203 8.9%
2006	4,706,613 8.5%	6,772,182 12.1%	38,064,507 68.1%	44,698 0.1%	5,335,417 9.5%
2007	3,660,269 6.2%	7,392,457 12.6%	41,075,618 69.9%	37,721 0.1%	4,318,523 7.3%
2008	3,174,598 5.3%	7,709,078 12.8%	43,046,317 71.8%	34,590 0.1%	3,485,015 5.8%
2009	2,031,279 3.0%	7,369,185 10.7%	41,461,900 60.4%	30,182 0.1%	14,507,409 21.2%
2010	1,799,980 2.6%	7,414,031 10.8%	42,834,001 62.5%	33,230 -	14,177,454 20.6%
2011	1,701,554 2.4%	8,685,176 12.2%	43,571,799 61.1%	37,220 -	14,456,449 20.2%
2012	2,089,610 2.5%	9,765,874 11.5%	47,330,201 55.9%	28,059 -	19,944,160 23.6%
2013	1,545,389 2.0%	9,836,410 12.6%	46,711,262 59.8%	29,161 -	15,030,687 19.3%

Note 1: In fiscal 2009, the state of Minnesota converted special education tuition billing to a state-wide system. This resulted in a movement of expenses to administrative support services and operations and maintenance from career and technical education, academic education, and special education.

<u>Food Service</u>	<u>Community Service</u>	<u>Interest and Fiscal Charges</u>	<u>Total</u>
\$ -	\$ 251,475	\$ -	\$ 48,566,172
-	0.5%	-	100.0%
-	282,810	415,940	51,317,561
-	0.6%	0.8%	100.0%
-	240,626	718,712	55,882,755
-	0.4%	1.3%	100.0%
-	285,398	1,991,349	58,761,335
-	0.5%	3.4%	100.0%
204,638	228,778	2,087,803	59,970,817
0.3%	0.4%	3.5%	100.0%
302,050	289,497	2,603,436	68,594,938
0.4%	0.4%	3.8%	100.0%
271,290	302,778	1,862,426	68,695,190
0.4%	0.4%	2.7%	100.0%
313,772	245,600	2,449,587	71,461,157
0.4%	0.3%	3.4%	100.0%
364,196	214,916	4,890,548	84,627,564
0.4%	0.3%	5.8%	100.0%
590,030	221,269	4,044,542	78,008,750
0.8%	0.3%	5.2%	100.0%

INTERMEDIATE DISTRICT NO. 287

General Fund Revenue by Source  
Last Ten Fiscal Years

Year Ended June 30,	Pass-Through Levies	Tuition	Federal Revenue	State Revenue	Other Revenue	Total
2004	\$ -	\$ 39,429,451	\$ 951,089	\$ 3,691	\$ 4,720,625	\$ 45,104,856
2005	-	43,441,164	936,502	737,618	4,783,694	49,898,978
2006	-	49,739,735	1,183,461	339,795	3,561,285	54,824,276
2007	-	53,841,584	1,316,431	187,727	2,997,819	58,343,561
2008	-	54,145,979	1,209,303	523,268	3,286,217	59,164,767
2009	6,134,620	28,370,605	314,578	33,178,712	2,441,764	70,440,279
2010	6,823,078	23,511,263	1,003,070	35,631,298	2,748,921	69,717,630
2011	4,923,538	24,119,591	1,698,976	44,274,425	3,550,539	78,567,069
2012	2,825,406	19,647,575	1,672,281	47,049,421	6,099,715	77,294,398
2013	2,974,288	18,994,895	667,828	46,793,472	4,431,219	73,861,702

Note 1: During fiscal year 2009, the District began to report pass-through levies separately. In the past, these amounts were included in tuition.

Note 2: In fiscal 2009, the state of Minnesota converted special education tuition billing to a state-wide system. This caused the tuition to be converted to state revenue.

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INTERMEDIATE DISTRICT NO. 287

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	\$ 74,653
National School Lunch Program	10.555	<u>183,834</u>
Total child nutrition cluster		258,487
<b>U.S. Department of Education</b>		
Passed through Minnesota Department of Education		
Mathematics and Science Partnerships	84.366	610,583
Improving Teacher Quality State Grants	84.367	6,543
English Language Acquisition State Grants	84.365	31,151
Passed through Independent School District No. 284		
Career and Technical Education – Basic Grants to States	84.048	16,550
<b>National Endowment for the Arts</b>		
Passed through Minnesota Department of Education		
Promotion of the Arts Partnership Agreements	45.025	<u>3,000</u>
Total federal awards		<u><u>\$ 926,314</u></u>

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: Non-monetary assistance of \$6,483 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

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

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

Program Title	Federal CFDA No.	Amount Provided
English Language Acquisition State Grants	84.365	\$ 16,745



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

To the Board of Directors and Management of  
Intermediate District No. 287  
Plymouth, 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 Intermediate District No. 287 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2013.

**Internal Control Over Financial Reporting**

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

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

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

(continued)

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota  
December 12, 2013



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

To the Board of Directors and Management of  
Intermediate District No. 287  
Plymouth, Minnesota

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

We have audited Intermediate District No. 287's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**MANAGEMENT'S RESPONSIBILITY**

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

**AUDITOR'S RESPONSIBILITY**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

(continued)



## **OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

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

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

Minneapolis, Minnesota  
December 12, 2013



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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the Board of Directors and Management of  
Intermediate District No. 287  
Plymouth, 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 Intermediate District No. 287 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013-001. 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 District's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

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

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

Minneapolis, Minnesota  
December 12, 2013

INTERMEDIATE DISTRICT NO. 287

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

**A. SUMMARY OF AUDIT RESULTS**

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

**Financial Statements**

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

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No  
 Significant deficiencies identified?        Yes   X   None reported

Noncompliance material to the financial statements noted?        Yes   X   No

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?        Yes   X   No  
 Significant deficiencies identified?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs?   X   Unmodified  
       Qualified  
       Adverse  
       Disclaimer

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

Programs tested as major programs:

Program or Cluster	CFDA No.
U.S. Department of Education Mathematics and Science Partnerships	84.366

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

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

INTERMEDIATE DISTRICT NO. 287

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

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

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

None.

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

**2013-001 UNTIMELY PAYMENT OF INVOICES**

**Criteria** – Minnesota Statute § 471.425, Subd. 2.

**Condition** – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, Intermediate District No. 287 (the District) must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For three disbursements selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

**Questioned Costs** – Not applicable.

**Context** – Three of twenty-five disbursements selected for testing were not paid within the required thirty-five-day period. This is a current year finding.

**Cause** – This was an oversight by district personnel.

**Effect** – The District was not in compliance with Minnesota Statutes.

**Recommendation** – We recommend that the District review procedures in place to ensure that all invoices are paid with statutory requirements.

**Corrective Action Plan**

Actions Planned – The District will review its payment procedures and will properly pay all invoices within the 35-day time limit in the future.

Official Responsible – Director of Finance.

Planned Completion Date – June 30, 2014.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

INTERMEDIATE DISTRICT NO. 287

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

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)**

**2013-001 UNTIMELY PAYMENT OF INVOICES (CONTINUED)**

**Corrective Action Plan (continued)**

Plan to Monitor – The Director of Finance will review the District’s procedures for paying invoices with district employees responsible for processing disbursements, and will improve these procedures to ensure that all bills are paid within statutory time limit.

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

No audit findings for the year ended June 30, 2012 were reported.

INTERMEDIATE DISTRICT NO. 287

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

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 73,861,702	\$ 73,861,700	\$ 2
Total expenditures		\$ 74,186,480	\$ 74,186,480	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 78,993	\$ 78,993	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ –	\$ –	\$ –
406	Health and safety	\$ 94	\$ 94	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ –	\$ –	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ 193,425	\$ 193,425	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe schools levy	\$ 272,736	\$ 272,736	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ 6,433,135	\$ 6,433,133	\$ 2
Unassigned				
422	Unassigned fund balance	\$ 6,310,491	\$ 6,310,491	\$ –
<b>Food Service</b>				
Total revenue		\$ 343,128	\$ 343,127	\$ 1
Total expenditures		\$ 590,030	\$ 590,029	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ 100,333	\$ 100,333	\$ –
Total expenditures		\$ 221,434	\$ 221,435	\$ (1)
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ –	\$ –	\$ –
432	ECFE	\$ –	\$ –	\$ –
444	School readiness	\$ –	\$ –	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INTERMEDIATE DISTRICT NO. 287

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

		Audit	UFARS	Audit – UFARS
<b>Building Construction</b>				
Total revenue		\$ 98,585	\$ 98,585	\$ –
Total expenditures		\$ 793,290	\$ 793,290	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
407	Capital projects levy	\$ –	\$ –	\$ –
409	Alternative facility program	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>				
Total revenue		\$ 5,155,934	\$ 5,155,934	\$ –
Total expenditures		\$ 3,973,669	\$ 3,973,669	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 2,520,724	\$ 2,520,724	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>				
Total revenue		\$ 518,830	\$ 518,831	\$ (1)
Total expenditures		\$ 481,584	\$ 481,585	\$ (1)
422	Net position	\$ 149,610	\$ 149,611	\$ (1)
<b>Internal Service</b>				
Total revenue		\$ 554,714	\$ 554,714	\$ –
Total expenditures		\$ 462,734	\$ 462,733	\$ 1
422	Net position	\$ 397,518	\$ 397,518	\$ –
<b>OPEB Revocable Trust Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
<b>OPEB Debt Service Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

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