

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
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YEAR ENDED JUNE 30, 2012**

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INTRODUCTORY SECTION

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2012**

BOARD OF EDUCATION

| | |
|----------------|------------|
| William Cronin | Chair |
| Allison Janke | Vice-Chair |
| Jane Keller | Clerk |
| Gary Wiersma | Treasurer |
| John Gross | Member |
| James Thon | Member |
| Jeri Madsen | Member |

ADMINISTRATION

| | |
|-------------|----------------|
| John Currie | Superintendent |
|-------------|----------------|

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 763's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative data has been derived from the District's 2011 financial statements and, in our report dated November 7, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

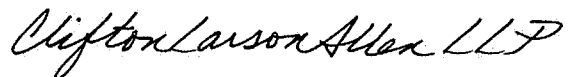
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 at June 30, 2012 and the respective changes in financial positions thereof and the respective budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012 on our consideration of Independent School District No. 763's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to described the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Austin, Minnesota
November 16, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

This section of Medford Public Schools – Independent School District No. 763's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Net assets on June 30, 2011 were \$3,189,486 and on June 30, 2012 were \$3,320,982.
- Overall General Fund revenues and other financing sources were \$6,684,656 as compared to \$6,457,846 of expenses and other financing uses.
- General Fund fund balance increased \$226,810 from the prior year. The major factor contributing to the increase was increased enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

District-Wide Statements

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

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

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for only 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 assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were \$3,320,982 on June 30, 2012.

**Table A-1
The District's Net Assets**

| | Governmental Activities as of | | Percentage Change |
|--------------------------------|-------------------------------|--------------|----------------------|
| | June 30, 2012 | 2011 | |
| Current and Other Assets | \$ 5,427,029 | \$ 5,191,767 | 4.5 % |
| Capital and Non-Current Assets | 13,452,579 | 13,851,187 | (2.9) |
| Total Assets | 18,879,608 | 19,042,954 | (0.9) |
| Current Liabilities | 2,384,217 | 2,295,412 | 3.9 |
| Long-Term Liabilities | 13,174,409 | 13,558,056 | (2.8) |
| Total Liabilities | 15,558,626 | 15,853,468 | (1.9) |
| Net Assets: | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 113,471 | 136,253 | (16.7) |
| Restricted | 453,792 | 568,496 | (20.2) |
| Unrestricted | 2,753,719 | 2,484,737 | 10.8 |
| Total Net Assets | \$ 3,320,982 | \$ 3,189,486 | 4.1 |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets

The District's total revenues were \$8,182,084 for the year ended June 30, 2012. Property taxes and state formula aid accounted for 77% of total revenue for the year (see Figure A-1.) Less than 1% came from other general revenues combined with investment earnings and the remaining 23% came from program revenues.

**Table A-2
Change in Net Assets**

| | Governmental Activities for the Fiscal Year Ended June 30, | | Total % |
|------------------------------------------|---------------------------------------------------------------|--------------|---------|
| | 2012 | 2011 | Change |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 498,234 | \$ 527,794 | (5.6)% |
| Operating Grants and Contributions | 1,255,565 | 1,081,470 | 16.1 |
| Capital Grants and Contributions | 117,624 | 114,354 | 2.9 |
| <u>General Revenues</u> | | | |
| Property Taxes | 1,198,411 | 1,275,751 | (6.1) |
| Unrestricted State Aid | 5,081,593 | 4,866,037 | 4.4 |
| Investment Earnings | 20,301 | 33,814 | (40.0) |
| Other | 10,356 | 25,943 | (60.1) |
| Total Revenues | 8,182,084 | 7,925,163 | |
| Expenses | | | |
| Administration | 404,105 | 396,399 | 1.9 |
| District Support Services | 262,654 | 250,863 | 4.7 |
| Regular Instruction | 4,076,438 | 3,758,202 | 8.5 |
| Vocational Education Instruction | 189,936 | 183,478 | 3.5 |
| Special Education Instruction | 661,214 | 542,399 | 21.9 |
| Instructional Support Services | 139,767 | 152,287 | (8.2) |
| Pupil Support Services | 503,680 | 485,408 | 3.8 |
| Sites and Buildings | 622,481 | 609,819 | 2.1 |
| Fiscal and Other Fixed Cost Programs | 20,427 | 16,741 | 22.0 |
| Food Service | 435,444 | 384,783 | 13.2 |
| Community Service | 178,896 | 189,521 | (5.6) |
| Interest and Fiscal Charges on Long-Term | | | |
| Liabilities | 555,546 | 1,049,903 | (47.1) |
| Total Expenses | 8,050,588 | 8,019,803 | 0.4 |
| Increase (Decrease) in Net Assets | 131,496 | (94,640) | |
| Beginning Net Assets | 3,189,486 | 3,284,126 | |
| Ending Net Assets | \$ 3,320,982 | \$ 3,189,486 | |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$8,050,588. Total revenues surpassed expenses, increasing net assets \$131,496 over last year.

- Some of the cost was paid by the users of the District's programs (\$498,234).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,373,189).
- Most of the District's costs (\$6,179,165), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,198,411 in property taxes, \$5,081,593 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

Figure A-1 Sources of District's Revenues for Fiscal 2012

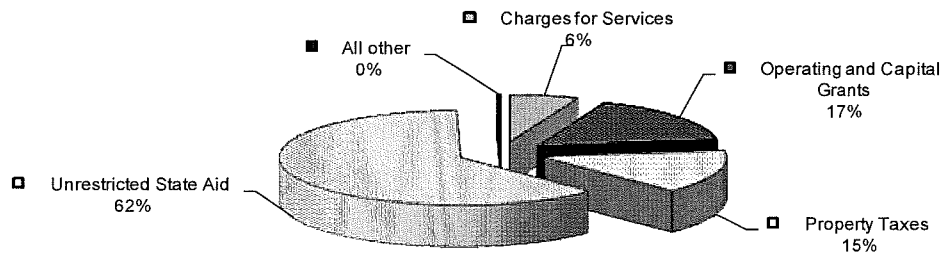
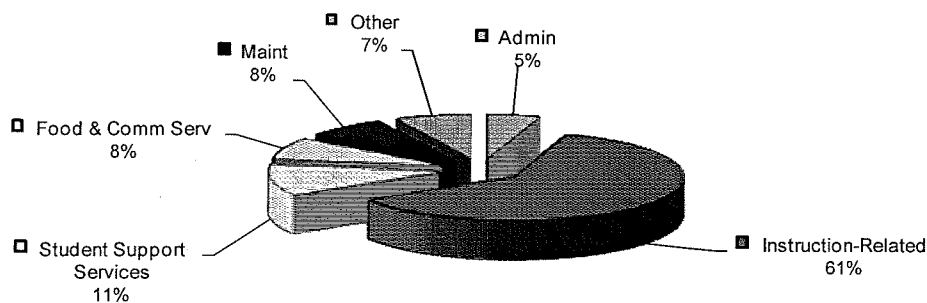


Figure A-2 District Expenses for Fiscal 2012



**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Typically the District does not include in an analysis of all governmental funds a breakout of expenditures as depicted in Figure A-2. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the district, which are used for classroom instruction, but also include resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The above graph, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option.

**Table A-3
Program Expenses and Net Cost of Services**

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|----------------------------------|------------------------|---------------------|----------------------|----------------------|---------------------|----------------------|
| | 2012 | 2011 | | 2012 | 2011 | |
| Administration | \$ 404,105 | \$ 396,399 | 1.94 % | \$ 404,105 | \$ 396,399 | 1.9 % |
| District Support Services | 262,654 | 250,863 | 4.70 | 203,657 | 193,298 | 5.4 |
| Regular Instruction | 4,076,438 | 3,758,202 | 8.47 | 3,294,321 | 3,168,481 | 4.0 |
| Vocational Education Instruction | 189,936 | 183,478 | 3.52 | 181,012 | 183,453 | (1.3) |
| Special Education Instruction | 661,214 | 542,399 | 21.91 | 254,145 | 55,239 | 360.1 |
| Instructional Support Services | 139,767 | 152,287 | (8.22) | 138,337 | 149,234 | (7.3) |
| Pupil Support Services | 503,680 | 485,408 | 3.76 | 485,337 | 466,484 | 4.0 |
| Sites and Buildings | 622,481 | 609,819 | 2.08 | 591,204 | 572,423 | 3.3 |
| Fiscal and Other Fixed | | | | | | |
| Cost Programs | 20,427 | 16,741 | 22.02 | 20,427 | 16,741 | 22.0 |
| Food Service | 435,444 | 384,783 | 13.17 | 8,908 | (1,987) | (548.3) |
| Community Service | 178,896 | 189,521 | (5.61) | 42,166 | 46,517 | (9.4) |
| Interest and Fiscal Charges | | | | | | |
| on Long-Term Liabilities | 555,546 | 1,049,903 | (47.09) | 555,546 | 1,049,903 | (47.1) |
| Total | <u>\$ 8,050,588</u> | <u>\$ 8,019,803</u> | 0.38 | <u>\$ 6,179,165</u> | <u>\$ 6,296,185</u> | (1.9) |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$3,525,012, which includes Debt Service. Total fund balance excluding Debt Service, amounted to \$3,284,001, an increase of \$258,171 from last year.

GENERAL FUND

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

Approximately 97% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

GENERAL FUND (CONTINUED)

Enrollment

Enrollment is a critical factor in determining revenue with approximately 87% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has increased over the last four years.

**Table A-4
Four-Year Enrollment Trend
Average Daily Membership (ADM)**

| Grade | 2009 | 2010 | 2011 | 2012 |
|----------------|-------|------|------|------|
| Kdgt. | 62 | 63 | 65 | 63 |
| 1-3 | 192 | 187 | 212 | 218 |
| 4-6 | 186 | 191 | 216 | 213 |
| 7-12 | 300 | 334 | 341 | 361 |
| Total K-12 ADM | 740 | 775 | 834 | 855 |
| ADM Change | (7) | 35 | 59 | 21 |
| Percent Change | -0.9% | 4.7% | 7.6% | 2.5% |

Over the last four years the District has experienced an increase in average daily membership by 115 students or 15.5%. It is anticipated that enrollment will remain stable. Limited space will restrict future growth from open enrollment. The District has encouraged parents to elect Medford Public School as the option of choice.

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

| Fund | Year Ended | | Change | |
|----------------------------|---------------------|---------------------|------------------------|---------|
| | June 30, 2012 | June 30, 2011 | Increase (Decrease) | Percent |
| Local Sources: | | | | |
| Property Taxes | \$ 310,165 | \$ 286,032 | \$ 24,133 | 8.4 % |
| Earnings on Investments | 16,833 | 16,999 | (166) | (1.0) |
| Other | 182,933 | 235,047 | (52,114) | (22.2) |
| State Sources | 5,812,028 | 5,531,589 | 280,439 | 5.1 |
| Federal Sources | 324,751 | 209,641 | 115,110 | 54.9 |
| Total General Fund Revenue | <u>\$ 6,646,710</u> | <u>\$ 6,279,308</u> | <u>\$ 367,402</u> | 5.9 |

Total General Fund Revenue increased by \$367,402 or 5.9% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

| | Year Ended | | Amount of | Percent |
|------------------------|---------------------|---------------------|------------------------|------------------------|
| | June 30, 2012 | June 30, 2011 | Increase (Decrease) | Increase (Decrease) |
| Salaries | \$ 3,478,811 | \$ 3,170,355 | \$ 308,456 | 9.7 % |
| Employee Benefits | 1,290,737 | 1,208,547 | 82,190 | 6.8 |
| Purchased Services | 1,172,182 | 1,097,763 | 74,419 | 6.8 |
| Supplies and Materials | 287,204 | 269,051 | 18,153 | 6.7 |
| Capital Expenditures | 166,503 | 174,092 | (7,589) | (4.4) |
| Other Expenditures | 22,081 | 19,089 | 2,992 | 15.7 |
| Total Expenditures | <u>\$ 6,417,518</u> | <u>\$ 5,938,897</u> | <u>\$ 478,621</u> | 8.1 |

Total General Fund Expenditures increased \$478,621 or 8.1% from the previous year. This increase is primarily attributed to the increased cost of purchased services and supplies and an increase in the number of teachers due to an increase in enrollment.

In 2011-12, General Fund revenues and other financing sources were greater than expenditures and other financing uses by \$226,810. Therefore, the total fund balance increased to \$3,164,238 at June 30, 2012. After deducting statutory restrictions, the unassigned fund balance increased from \$1,816,944 at June 30, 2011 to \$2,198,277 at June 30, 2012.

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$2,198,277 at June 30, 2012, represents 34% of annual expenditures. The District has had a Board approved fund balance policy in place since 1999 requiring a minimum 25% of the yearly total expenditures be maintained.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over, and budgeting for clearing.
- Legislation passed subsequent to budget adoption, changes necessitated by collective bargaining agreements, and increases in appropriations for significant unbudgeted costs.

Actual revenues were \$320,775 more than expected. The actual expenditures were \$187,053 below budget. While the District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$276,656, the actual results for the year show revenues and other financing sources exceeding expenditures and other financing uses by \$226,810.

DEBT SERVICE FUND

The Debt Service Fund expenditures were more than revenues by \$14,335. The remaining fund balance of \$241,011 at June 30, 2012 is available for meeting future debt service obligations.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OTHER MAJOR FUNDS

Expenditures exceeded revenues in the Food Service Fund by \$2,252. The Community Service Fund revenues and other financing sources exceeded expenditures by \$33,613.

From the standpoint of maintaining current operating expenditures within the range of annual revenue, and maintaining a sound fund balance, these funds will be monitored.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested slightly more than \$17.4 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$443,137.

**Table A-7
The District's Capital Assets**

| | 2012 | 2011 | Percentage Change |
|--------------------------------|----------------------|----------------------|----------------------|
| Land | \$ 459,823 | \$ 459,823 | - % |
| Land Improvements | 2,101,741 | 2,098,966 | 0.1 |
| Buildings and Improvements | 14,204,232 | 14,204,232 | - |
| Equipment | 631,167 | 707,213 | (10.8) |
| Less: Accumulated Depreciation | (3,944,384) | (3,619,047) | 9.0 |
| Total | \$ 13,452,579 | \$ 13,851,187 | (2.9) |

Long-Term Liabilities

At year-end, the District had \$13,285,000 in general obligation bonds outstanding. The District also had an estimated \$303,218 in severance and other postemployment benefits payable at June 30, 2012, an increase of \$71,096 since June 30, 2011.

**Table A-8
The District's Long-Term Liabilities**

| | 2012 | 2011 | Percentage Change |
|---------------------------------------|----------------------|----------------------|----------------------|
| General Obligation Bonds | \$ 13,285,000 | \$ 13,670,000 | (2.82)% |
| Net Bond Premium and Discount | 31,454 | 44,934 | (30.0) |
| Obligations Under Capital Leases | 22,654 | - | - |
| Other Postemployment Benefits Payable | 192,782 | 129,065 | 49.4 |
| Severance Benefits Payable | 110,436 | 103,057 | 7.2 |
| Total | \$ 13,642,326 | \$ 13,947,056 | (2.2) |
| Long-Term Liabilities: | | | |
| Due Within One Year | \$ 467,917 | \$ 389,000 | |
| Due in More Than One Year | 13,174,409 | 13,558,056 | |
| | \$ 13,642,326 | \$ 13,947,056 | |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FACTORS BEARING ON THE DISTRICT'S FUTURE

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The state will have an aid payment schedule of 64.3%/35.7% for 2012-13, which will put a definite strain on our District financially. The future revenues of the District and other Minnesota districts will depend heavily on the future actions of the legislature. Stabilizing enrollment growth will limit revenue increases in the near future.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 763, 750 Second Avenue S.E., Medford, MN 55049.

BASIC FINANCIAL STATEMENTS

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

| | Governmental Activities | |
|-------------------------------------------------|-------------------------|---------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Cash and Investments | \$ 2,165,684 | \$ 2,294,023 |
| Receivables: | | |
| Property Taxes | 688,314 | 758,097 |
| Other Governments | 2,403,202 | 1,948,686 |
| Other | 1,321 | 8,264 |
| Inventories | 2,575 | 2,002 |
| Bond Issuance Costs, Net | 165,933 | 180,695 |
| Capital Assets: | | |
| Land | 459,823 | 459,823 |
| Other Capital Assets, Net of Depreciation | 12,992,756 | 13,391,364 |
| Total Assets | <u>18,879,608</u> | <u>19,042,954</u> |
| LIABILITIES | | |
| Salaries and Withholdings Payable | 548,810 | 511,200 |
| Accounts Payable | 56,388 | 51,874 |
| Accrued Interest | 227,117 | 237,872 |
| Deferred Revenue: | | |
| Property Taxes | 1,075,456 | 1,094,675 |
| Local Sources | 8,529 | 10,791 |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 467,917 | 389,000 |
| Portion Due in More Than One Year | 13,174,409 | 13,558,056 |
| Total Liabilities | <u>15,558,626</u> | <u>15,853,468</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 113,471 | 136,253 |
| Restricted for: | | |
| Operating Capital Purposes | 75,314 | 98,668 |
| State-Mandated Restrictions | 208,041 | 336,573 |
| Food Service | 72,753 | 75,005 |
| Community Service | 48,323 | 14,290 |
| Debt Service | 49,361 | 43,960 |
| Unrestricted | <u>2,753,719</u> | <u>2,484,737</u> |
| Total Net Assets | <u>\$ 3,320,982</u> | <u>\$ 3,189,486</u> |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

| 2012 | | | |
|---------------------------------------------------------|---------------------|-------------------------|-----------------------------------------------------|
| Functions | Expenses | Charges for Services | Program Operating Grants and Contributions |
| Governmental Activities | | | |
| Administration | \$ 404,105 | \$ - | \$ - |
| District Support Services | 262,654 | 57,803 | - |
| Regular Instruction | 4,076,438 | 91,783 | 603,134 |
| Vocational Education Instruction | 189,936 | - | 8,924 |
| Special Education Instruction | 661,214 | 364 | 406,705 |
| Instructional Support Services | 139,767 | - | - |
| Pupil Support Services | 503,680 | - | 18,222 |
| Sites and Buildings | 622,481 | 3,598 | - |
| Fiscal and Other Fixed Cost Programs | 20,427 | - | - |
| Food Service | 435,444 | 232,594 | 193,942 |
| Community Service | 178,896 | 112,092 | 24,638 |
| Interest and Fiscal Charges on Long-Term Liabilities | 555,546 | - | - |
| Total School District | <u>\$ 8,050,588</u> | <u>\$ 498,234</u> | <u>\$ 1,255,565</u> |

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
 State Aid Not Restricted to Specific Purposes
 Earnings on Investments
 Gain on Sale of Fixed Assets
 Miscellaneous
 Total General Revenues
 Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying Notes to Financial Statements.

| | 2012 | 2011 |
|-----------------------------|----------------------------------------------------------|----------------------------------------------------------|
| | Net (Expense) Revenue and Changes in Net Assets | Net (Expense) Revenue and Changes in Net Assets |
| Revenues | Total | Total |
| Capital | Governmental | Governmental |
| Grants and Contributions | Activities | Activities |
| \$ - | \$ (404,105) | \$ (396,399) |
| 1,194 | (203,657) | (193,298) |
| 87,200 | (3,294,321) | (3,168,481) |
| - | (181,012) | (183,453) |
| - | (254,145) | (55,239) |
| 1,430 | (138,337) | (149,234) |
| 121 | (485,337) | (466,484) |
| 27,679 | (591,204) | (572,423) |
| - | (20,427) | (16,741) |
| - | (8,908) | 1,987 |
| - | (42,166) | (46,517) |
| - | (555,546) | (1,049,903) |
| <u>\$ 117,624</u> | <u>(6,179,165)</u> | <u>(6,296,185)</u> |

| | |
|---------------------|---------------------|
| 280,140 | 325,053 |
| 33,797 | 46,985 |
| 884,474 | 903,713 |
| 5,081,593 | 4,866,037 |
| 20,301 | 33,814 |
| - | 281 |
| 10,356 | 25,662 |
| <u>6,310,661</u> | <u>6,201,545</u> |
| 131,496 | (94,640) |
| <u>3,189,486</u> | <u>3,284,126</u> |
| <u>\$ 3,320,982</u> | <u>\$ 3,189,486</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

| | | | Major |
|---------------------------------------------------------------|---------------------|------------------|----------------------|
| | General | Food Service | Community Service |
| ASSETS | | | |
| Cash and Investments | \$ 1,379,583 | \$ 73,486 | \$ 42,651 |
| Receivables: | | | |
| Current Property Taxes | 127,385 | - | 18,308 |
| Delinquent Property Taxes | 12,751 | - | 1,654 |
| Due from Other Minnesota School Districts | - | - | - |
| Due from Minnesota Department of Education | 2,276,147 | 420 | 8,397 |
| Due from Federal through Minnesota Department of Education | 92,477 | 3,116 | - |
| Other Receivables | 1,321 | - | - |
| Inventory | - | 2,575 | - |
| Total Assets | <u>\$ 3,889,664</u> | <u>\$ 79,597</u> | <u>\$ 71,010</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Salaries and Withholdings Payable | \$ 547,869 | \$ - | \$ 941 |
| Accounts Payable | 54,739 | 443 | 1,206 |
| Deferred Revenue: | | | |
| Property Taxes | 112,697 | - | 18,412 |
| Delinquent Property Taxes | 10,121 | - | 1,313 |
| Local Sources | - | 6,401 | 2,128 |
| Total Liabilities | <u>725,426</u> | <u>6,844</u> | <u>24,000</u> |
| Fund Balance: | | | |
| Nonspendable: | | | |
| Inventory | - | 2,575 | - |
| Restricted for: | | | |
| Staff Development | 73,462 | - | - |
| Deferred Maintenance | 21,869 | - | - |
| Learning and Development | 13,164 | - | - |
| Gifted and Talented | 262 | - | - |
| Basic Skills Programs | 4,609 | - | - |
| Health and Safety | (16,131) | - | - |
| Operating Capital | 75,314 | - | - |
| Disabled Accessibility | 65,118 | - | - |
| Safe School Crime | 29,557 | - | - |
| Community Education Programs | - | - | 36,241 |
| Early Childhood and Family Educations Programs | - | - | 9,718 |
| School Readiness | - | - | 1,051 |
| Other Purposes | - | 70,178 | - |
| Assigned: | | | |
| Assigned for Severance | 196,357 | - | - |
| Assigned for Other Postemployment Benefits | 500,000 | - | - |
| Assigned for Playground Equipment | 2,380 | - | - |
| Unassigned | 2,198,277 | - | - |
| Total Fund Balance | <u>3,164,238</u> | <u>72,753</u> | <u>47,010</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,889,664</u> | <u>\$ 79,597</u> | <u>\$ 71,010</u> |

See accompanying Notes to Financial Statements.

| Funds | Total Governmental | |
|---------------------|---------------------|---------------------|
| | Funds | |
| Debt Service | 2012 | 2011 |
| \$ 669,964 | \$ 2,165,684 | \$ 2,294,023 |
| 483,533 | 629,226 | 687,239 |
| 44,683 | 59,088 | 70,858 |
| - | - | 18,889 |
| 22,645 | 2,307,609 | 1,919,559 |
| - | 95,593 | 10,238 |
| - | 1,321 | 8,264 |
| - | 2,575 | 2,002 |
| <u>\$ 1,220,825</u> | <u>\$ 5,261,096</u> | <u>\$ 5,011,072</u> |
| | | |
| \$ - | \$ 548,810 | \$ 511,200 |
| - | 56,388 | 51,874 |
| 944,347 | 1,075,456 | 1,094,675 |
| 35,467 | 46,901 | 61,356 |
| - | 8,529 | 10,791 |
| <u>979,814</u> | <u>1,736,084</u> | <u>1,729,896</u> |
| | | |
| - | 2,575 | 2,002 |
| - | 73,462 | 209,798 |
| - | 21,869 | 13,686 |
| - | 13,164 | - |
| - | 262 | - |
| - | 4,609 | - |
| - | (16,131) | (12,336) |
| - | 75,314 | 98,668 |
| - | 65,118 | 69,364 |
| - | 29,557 | 43,725 |
| - | 36,241 | 28,670 |
| - | 9,718 | 2,730 |
| - | 1,051 | 502 |
| 241,011 | 311,189 | 328,349 |
| - | 196,357 | 196,357 |
| - | 500,000 | 500,000 |
| - | 2,380 | 1,222 |
| - | 2,198,277 | 1,798,439 |
| <u>241,011</u> | <u>3,525,012</u> | <u>3,281,176</u> |
| <u>\$ 1,220,825</u> | <u>\$ 5,261,096</u> | <u>\$ 5,011,072</u> |

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Total Fund Balance for Governmental Funds | \$ 3,525,012 | \$ 3,281,176 |
| Total net assets reported for governmental activities in the statement of net assets is different because: | | |
| Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of: | | |
| Land | 459,823 | 459,823 |
| Land Improvements, Net of Accumulated Depreciation | 1,201,622 | 1,303,865 |
| Buildings and Improvements, Net of Accumulated Depreciation | 11,502,682 | 11,787,551 |
| Equipment, Net of Accumulated Depreciation | 288,452 | 299,948 |
| Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds. | | |
| | 46,901 | 61,356 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | |
| | (227,117) | (237,872) |
| Bond issuance costs are reported as expenditures in the governmental funds. | | |
| | 165,933 | 180,695 |
| Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are: | | |
| Bonds Payable | (13,285,000) | (13,670,000) |
| Unamortized Premiums | (31,454) | (44,934) |
| Obligations Under Capital Leases | (22,654) | - |
| Other Postemployment Benefits Payable | (192,782) | (129,065) |
| Severance Benefits Payable | (110,436) | (103,057) |
| Total Net Assets of Governmental Activities | <u>\$ 3,320,982</u> | <u>\$ 3,189,486</u> |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

| | Major | | |
|--------------------------------------------------------------|--------------|--------------|-------------------|
| | General | Food Service | Community Service |
| REVENUES | | | |
| Local Sources: | | | |
| Property Taxes | \$ 310,165 | \$ - | \$ 33,169 |
| Earnings on Investments | 16,833 | 748 | - |
| Other | 182,933 | 232,594 | 115,110 |
| State Sources | 5,812,028 | 20,841 | 23,442 |
| Federal Sources | 324,751 | 173,101 | - |
| Total Revenues | 6,646,710 | 427,284 | 171,721 |
| EXPENDITURES | | | |
| Current: | | | |
| Administration | 397,687 | - | - |
| District Support Services | 257,760 | - | - |
| Regular Instruction | 3,524,646 | - | - |
| Vocational Education Instruction | 182,573 | - | - |
| Special Education Instruction | 653,565 | - | - |
| Instructional Support Services | 113,557 | - | - |
| Pupil Support Services | 502,695 | - | - |
| Sites and Buildings | 598,105 | - | - |
| Fiscal and Other Fixed Cost Programs | 20,427 | - | - |
| Food Service | - | 429,536 | - |
| Community Service | - | - | 178,896 |
| Capital Outlay | 166,503 | - | - |
| Debt Service: | | | |
| Principal | - | - | - |
| Interest and Fiscal Charges | - | - | - |
| Total Expenditures | 6,417,518 | 429,536 | 178,896 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 229,192 | (2,252) | (7,175) |
| OTHER FINANCING SOURCES (USES) | | | |
| Capital Lease Proceeds | 22,967 | - | - |
| Proceeds from Sale of Equipment | 299 | - | - |
| Proceeds from Sale of Real Property | - | - | - |
| Insurance Recovery Proceeds | 14,680 | - | 460 |
| Bond Proceeds | - | - | - |
| Bond Premium | - | - | - |
| Payment to Refunded Bond Escrow Agent | - | - | - |
| Other Financing Uses - Debt Service Principal | - | - | - |
| Transfers In | - | - | 40,328 |
| Transfers Out | (40,328) | - | - |
| Total Other Financing Sources (Uses) | (2,382) | - | 40,788 |
| Net Change in Fund Balances | 226,810 | (2,252) | 33,613 |
| Fund Balances - Beginning | 2,937,428 | 75,005 | 13,397 |
| Fund Balances - Ending | \$ 3,164,238 | \$ 72,753 | \$ 47,010 |

See accompanying Notes to Financial Statements.

| Funds | | Total Governmental | |
|-----------------|----------|--------------------|--------------|
| Debt Service | | Funds | |
| | | 2012 | 2011 |
| \$ | 869,532 | \$ 1,212,866 | \$ 1,264,109 |
| | 2,720 | 20,301 | 33,814 |
| | - | 530,637 | 563,180 |
| | 63,432 | 5,919,743 | 5,670,105 |
| | - | 497,852 | 366,951 |
| | 935,684 | 8,181,399 | 7,898,159 |
| | - | 397,687 | 394,960 |
| | - | 257,760 | 246,150 |
| | - | 3,524,646 | 3,230,421 |
| | - | 182,573 | 178,975 |
| | - | 653,565 | 535,836 |
| | - | 113,557 | 104,293 |
| | - | 502,695 | 477,887 |
| | - | 598,105 | 579,542 |
| | - | 20,427 | 16,741 |
| | - | 429,536 | 376,203 |
| | - | 178,896 | 188,102 |
| | - | 166,503 | 176,766 |
| | 385,000 | 385,000 | 256,764 |
| | 565,019 | 565,019 | 1,285,795 |
| | 950,019 | 7,975,969 | 8,048,435 |
| | (14,335) | 205,430 | (150,276) |
| | - | 22,967 | - |
| | - | 299 | 3,148 |
| | - | - | 600 |
| | - | 15,140 | 15,081 |
| | - | - | 1,640,000 |
| | - | - | 53,921 |
| | - | - | (11,750,000) |
| | - | - | (1,668,455) |
| | - | 40,328 | - |
| | - | (40,328) | - |
| | - | 38,406 | (11,705,705) |
| | (14,335) | 243,836 | (11,855,981) |
| | 255,346 | 3,281,176 | 15,137,157 |
| \$ | 241,011 | \$ 3,525,012 | \$ 3,281,176 |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

| | 2012 | 2011 |
|------------------------------------------------------------|-------------------|------------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ 243,836 | \$ (11,855,981) |

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|-------------------------------------------|-----------|-----------|
| Capital Outlays | 56,229 | 33,516 |
| Gain (Loss) on Disposal of Capital Assets | (11,401) | 281 |
| Proceeds from Sales of Capital Assets | (299) | (3,748) |
| Depreciation Expense | (443,137) | (443,784) |

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

| | | |
|----------------------------------------|----------|-------|
| Other Financing Source - Capital Lease | (22,967) | - |
| Principal Payments - Capital Leases | 313 | 1,239 |

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

| | | |
|---------------------------------------------------------------|----------|-------------|
| General Obligation Bond Proceeds | - | (1,640,000) |
| Payment to Refunded Bond Escrow Agent | - | 13,418,455 |
| Bond Premium | - | (53,921) |
| Bond Issuance Costs | - | (47,616) |
| Repayment of Bond Principal | 385,000 | 256,764 |
| Change in Accrued Interest Expense - General Obligation Bonds | 10,755 | 287,190 |
| Amortization of Bond Issuance Costs | (14,762) | (12,669) |
| Amortization of Bond Premium | 13,480 | 8,987 |

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

| | |
|----------|--------|
| (14,455) | 11,642 |
|----------|--------|

In the statement of activities, certain operating expenses - severance benefits, compensated absences and other postemployment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

| | | |
|--------------------------------------------------------|-------------------|--------------------|
| | (71,096) | (54,995) |
| Change in Net Assets of Governmental Activities | \$ 131,496 | \$ (94,640) |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | Actual | Over (Under) |
|--------------------------------------------------------------|------------------|--------------|--------------|-----------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local Sources: | | | | |
| Property Taxes | \$ 269,011 | \$ 263,912 | \$ 310,165 | \$ 46,253 |
| Earnings on Investments | 20,050 | 20,050 | 16,833 | (3,217) |
| Other | 196,209 | 170,516 | 182,933 | 12,417 |
| State Sources | 5,368,358 | 5,514,773 | 5,812,028 | 297,255 |
| Federal Sources | 237,079 | 356,684 | 324,751 | (31,933) |
| Total Revenues | 6,090,707 | 6,325,935 | 6,646,710 | 320,775 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 427,614 | 424,709 | 397,687 | (27,022) |
| District Support Services | 289,023 | 289,423 | 257,760 | (31,663) |
| Regular Instruction | 3,523,626 | 3,569,782 | 3,524,646 | (45,136) |
| Vocational Education Instruction | 179,996 | 180,510 | 182,573 | 2,063 |
| Special Education Instruction | 643,212 | 724,649 | 653,565 | (71,084) |
| Instructional Support Services | 118,699 | 120,699 | 113,557 | (7,142) |
| Pupil Support Services | 505,173 | 511,709 | 502,695 | (9,014) |
| Sites and Buildings | 636,745 | 636,295 | 598,105 | (38,190) |
| Fiscal and Other Fixed Cost Programs | 28,350 | 21,350 | 20,427 | (923) |
| Capital Outlay | 90,755 | 125,445 | 166,503 | 41,058 |
| Total Expenditures | 6,443,193 | 6,604,571 | 6,417,518 | (187,053) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (352,486) | (278,636) | 229,192 | 507,828 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Capital Lease Proceeds | - | - | 22,967 | 22,967 |
| Proceeds from Sale of Equipment | - | - | 299 | 299 |
| Insurance Recovery Proceeds | - | 1,980 | 14,680 | 12,700 |
| Transfers Out | - | - | (40,328) | (40,328) |
| Total Other Financing Sources (Uses) | - | 1,980 | (2,382) | (4,362) |
| Net Change in Fund Balances | \$ (352,486) | \$ (276,656) | 226,810 | \$ 503,466 |
| FUND BALANCE | | | | |
| Beginning of Year | | | 2,937,428 | |
| End of Year | | | \$ 3,164,238 | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | Actual | Over (Under) |
|------------------------------|------------------|-------------------|------------------|-----------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings on Investments | \$ 150 | \$ 300 | \$ 748 | \$ 448 |
| Other - Primarily Meal Sales | 210,900 | 214,350 | 232,594 | 18,244 |
| State Sources | 18,100 | 20,500 | 20,841 | 341 |
| Federal Sources | 141,500 | 160,500 | 173,101 | 12,601 |
| Total Revenues | <u>370,650</u> | <u>395,650</u> | <u>427,284</u> | <u>31,634</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Food Service | 367,093 | 404,664 | 429,536 | 24,872 |
| Capital Outlay | 2,000 | - | - | - |
| Total Expenditures | <u>369,093</u> | <u>404,664</u> | <u>429,536</u> | <u>24,872</u> |
| Net Change in Fund Balance | <u>\$ 1,557</u> | <u>\$ (9,014)</u> | <u>(2,252)</u> | <u>\$ 6,762</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>75,005</u> | |
| End of Year | | | <u>\$ 72,753</u> | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | Actual | Over (Under) |
|------------------------------------|------------------|-------------|-----------|-----------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local Sources: | | | | |
| Property Taxes | \$ 35,464 | \$ 35,464 | \$ 33,169 | \$ (2,295) |
| Earnings on Investments | 100 | 200 | - | (200) |
| Other - Primarily Tuition and Fees | 124,235 | 128,135 | 115,110 | (13,025) |
| State Sources | 22,608 | 22,608 | 23,442 | 834 |
| Total Revenues | 182,407 | 186,407 | 171,721 | (14,686) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community Service | 210,744 | 213,293 | 178,896 | (34,397) |
| Capital Outlay | 300 | 300 | - | (300) |
| Total Expenditures | 211,044 | 213,593 | 178,896 | (34,697) |
| Net Change in Fund Balance | (28,637) | (27,186) | (7,175) | 20,011 |
| OTHER FINANCING SOURCES | | | | |
| Insurance Recovery Proceeds | - | 460 | 460 | - |
| Transfer in | - | - | 40,328 | 40,328 |
| Total Other Financing Sources | - | 460 | 40,788 | 40,328 |
| Net Change in Fund Balance | \$ (28,637) | \$ (26,726) | 33,613 | \$ 60,339 |
| FUND BALANCE | | | | |
| Beginning of Year | | | 13,397 | |
| End of Year | | | \$ 47,010 | |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

| | Private- Purpose Trust |
|----------------------|------------------------------|
| | <u> </u> |
| ASSETS | |
| Cash and Investments | \$ 15,961 |
| | <u> </u> |
| NET ASSETS | |
| Held in Trust | \$ 15,961 |
| | <u> </u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012**

| | Private- Purpose Trust |
|--------------------------------|----------------------------------|
| | <u> </u> |
| ADDITIONS | |
| Gifts and Donations | \$ 12,450 |
| Earnings on Investments | 112 |
| Total Additions | <u> 12,562</u> |
| DEDUCTIONS | |
| Scholarships Awarded | <u> 14,350</u> |
| Change in Net Assets | (1,788) |
| Net Assets - Beginning of Year | <u> 17,749</u> |
| Net Assets - End of Year | <u> \$ 15,961</u> |

See accompanying Notes to Financial Statements.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 763 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 763 (the District) is an instrumentality of the State of Minnesota established to function as an education institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all fund and account groups of the District. There are no other entities for which the District is financially accountable.

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

C. Basic Financial Statement Presentation

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (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. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

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

D. Measurement Focus and Basis of Accounting

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report follows:

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligation bond principal, interest, and related costs.

Fiduciary Funds

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for trust arrangements under which the principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donator.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits a proposed operating budget for the fiscal year commencing July 1 to the School Board prior to July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item level.

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

F. Cash and Investments

Cash and investments consist of interest bearing accounts. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivable not expected to be collected within one year is current property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year).

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy which is frozen at \$84,784 for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced in fiscal year 2011 by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2011 Pay 2012 levy, normally revenue for the 2012-2013 fiscal year, are also advance recognized at June 30, 2012, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2012, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 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 District-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of building or other improvable property.

K. Long-Term Obligations

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

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

L. Accrued Employee Benefits

Vacation Pay

Full-time, non-certified employees earn annual vacation pay based on the length of service in the District. The expenditures for vacation pay are recognized when the payment is made. No liability for vacation pay is recorded, as this benefit does not vest to employees.

Severance Payable

Severance consists of convertible sick leave payments.

Sick Leave – All full-time employees are entitled to sick leave pay at various rates. Employees may accrue a maximum total of 100 sick days to be paid upon termination. The employee shall receive \$60 for each unused sick day.

The District budgets for payments of severance pay for the ensuing year when it anticipates the retirement of personnel eligible for a severance payment. The payment of severance pay is recorded as a current expenditure in the year of the payment. There were no expenditures for severance pay made in 2012. A liability for severance payable totaling \$110,436 is recorded in the Statement of Net Assets.

Other Post Employment Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District is required to pay 93% - 100% of single coverage health, dental and life insurance premiums until the retired employee reaches the age of 65.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Revenues

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for property taxes levied for subsequent years, delinquent property taxes, prepaid lunch accounts, a fund balance penalty, and preschool registration fees.

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance is related to inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently does not report any committed fund balance. The Board of Education passed a resolution authorizing the Superintendent the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund of 25% of the annual budgeted expenditures.

O. Risk Management

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters and workers compensation.

The District has joined together with other school districts in southeastern Minnesota in the Southeast Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

The District continues to carry commercial insurance for all other risks of loss. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Assets

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

Q. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. Certain comparative information has been reclassified to conform with the current year presentation.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

| | <u>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|-------------------|---------------|---------------------|---------------|
| Food Service Fund | \$ 404,664 | \$ 429,536 | \$ 24,872 |

B. Interfund Transfer

The District had the following interfund transfer for the year ended June 30, 2012:

| | |
|---------------|---------------------|
| | <u>Transfer In</u> |
| | <u>Community</u> |
| | <u>Service Fund</u> |
| Transfer Out: | |
| General Fund | <u>\$ 40,328</u> |

The purpose of the interfund transfer was to eliminate a deficit fund balance in the Community Service Fund.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned in full. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- 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 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen 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, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of new York, or certain Minnesota securities broker-dealers.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2012, the District had no investments.

The deposits are presented in the basic financial statements as follows:

| | |
|----------------------------------------------------------|---------------------|
| Deposits | <u>\$ 2,181,645</u> |
| Cash and Investments - Statement of Net Assets | \$ 2,165,684 |
| Cash and Investments - Statement of Fiduciary Net Assets | 15,961 |
| Total Cash and Investments | <u>\$ 2,181,645</u> |

NOTE 4 CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|---------------------|--------------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 459,823 | \$ - | \$ - | \$ 459,823 |
| Total Capital Assets, Not Being Depreciated | 459,823 | - | - | 459,823 |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | 2,098,966 | 2,775 | - | 2,101,741 |
| Buildings and Improvements | 14,204,232 | - | - | 14,204,232 |
| Equipment | 707,213 | 53,454 | (129,500) | 631,167 |
| Total Capital Assets, Being Depreciated | 17,010,411 | 56,229 | (129,500) | 16,937,140 |
| Accumulated Depreciation for: | | | | |
| Land Improvements | (795,101) | (105,018) | - | (900,119) |
| Buildings and Improvements | (2,416,681) | (284,869) | - | (2,701,550) |
| Equipment | (407,265) | (53,250) | 117,800 | (342,715) |
| Total Accumulated Depreciation | (3,619,047) | (443,137) | 117,800 | (3,944,384) |
| Total Capital Assets, Being Depreciated, Net | 13,391,364 | (386,908) | (11,700) | 12,992,756 |
| Governmental Activities Capital Assets, Net | <u>\$ 13,851,187</u> | <u>\$ (386,908)</u> | <u>\$ (11,700)</u> | <u>\$ 13,452,579</u> |

Depreciation expense was charged to functions of the District as follows:

| | |
|-----------------------------------------------------|-------------------|
| Governmental Activities | |
| Administration | \$ 1,500 |
| Regular Instruction | 413,729 |
| Instructional Support Services | 13,305 |
| Sites and Buildings | 8,695 |
| Food Service | 5,908 |
| Total Depreciation Expense, Governmental Activities | <u>\$ 443,137</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

| Issue Date | Net Interest Rate | Original Issue | Final Maturity | Principal Outstanding | |
|---------------------------------------|-------------------|----------------|----------------|-----------------------|----------------------|
| | | | | Due Within One Year | Total |
| 3/30/2006 | 4.0% - 5.0% | \$ 12,030,000 | 2/1/2031 | \$ 40,000 | \$ 11,990,000 |
| 11/16/2010 | 2.0% - 3.0% | 1,640,000 | 2/1/2015 | 420,000 | 1,295,000 |
| Total General Obligation Bonds | | | | 460,000 | 13,285,000 |
| Bond Premium - Net | | | | - | 31,454 |
| Lease Purchase Obligations: | | | | | |
| Capital Lease Payable | | | | 3,917 | 22,654 |
| Total Leases Purchase Obligations | | | | 3,917 | 22,654 |
| Other Postemployment Benefits Payable | | | | - | 192,782 |
| Severance Payable | | | | 4,000 | 110,436 |
| | | | | <u>\$ 467,917</u> | <u>\$ 13,642,326</u> |

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including the capital lease and severance and other postemployment benefits payable, are as follows:

| Year Ending June 30, | General Obligation Bonds Payable | |
|----------------------|----------------------------------|---------------------|
| | Principal | Interest |
| 2013 | \$ 460,000 | \$ 545,081 |
| 2014 | 465,000 | 535,081 |
| 2015 | 490,000 | 520,731 |
| 2016 | 535,000 | 505,632 |
| 2017 | 555,000 | 484,231 |
| 2018 - 2022 | 3,140,000 | 2,067,944 |
| 2023 - 2027 | 3,875,000 | 1,362,256 |
| 2028 - 2031 | 3,765,000 | 445,656 |
| | <u>\$ 13,285,000</u> | <u>\$ 6,466,612</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

General Obligation School Building Refunding Bonds of 2006

On March 30, 2006, the District issued \$12,030,000 of General Obligation School Building Refunding Bonds, Series 2006. The proceeds of the issue were used to refund, in advance of their stated maturities, the District's G.O. School Building Bonds of 2001A. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

General Obligation School Building Refunding Bonds of 2010

On November 16, 2010, the District issued \$1,640,000 of General Obligation School Building Refunding Bonds, Series 2010. The proceeds of the issue were used to refund, in advance of their stated maturities, the District's G.O. School Building Bonds of 2001B, prepaying on February 1, 2011, the 2011 through 2015 principal installments aggregating \$1,668,455. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated to retire these bonds.

Capital Leases

The District has entered into a capital lease for several copiers. The interest rate on the lease is 8% and the lease term is for five years. The capital assets relating to the leases have a cost of \$22,967 and accumulated depreciation of \$2,297 at June 30, 2012.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2012:

| <u>Year Ending June 30,</u> | |
|------------------------------------------------|------------------|
| 2013 | \$ 5,588 |
| 2014 | 5,589 |
| 2015 | 5,589 |
| 2016 | 5,588 |
| 2017 | 5,122 |
| Total Minimum Lease Payments | 27,476 |
| Less Amounts Representing Interest | 4,822 |
| Present Value of Net Minimum Lease Payments | <u>\$ 22,654</u> |

Severance Payable

Severance payable consists of convertible sick leave payable to employees upon retirement. Severance benefits are paid by the General Fund.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

| | June 30, 2011 | Additions | Retirements | June 30, 2012 |
|------------------------------------------|----------------------|-------------------|-------------------|----------------------|
| Bonds Payable | \$ 13,670,000 | \$ - | \$ 385,000 | \$ 13,285,000 |
| Bond Premium | 44,934 | - | 13,480 | 31,454 |
| Lease Purchase Obligations | - | 22,967 | 313 | 22,654 |
| Other Postemployment Benefits Payable | 129,065 | 103,765 | 40,048 | 192,782 |
| Severance Payable | 103,057 | 7,379 | - | 110,436 |
| | <u>\$ 13,947,056</u> | <u>\$ 134,111</u> | <u>\$ 438,841</u> | <u>\$ 13,642,326</u> |

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES

Fund Equity

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

A. Restricted for Staff Development

The fund balance restriction represents general education aid resources restricted for staff development programs.

B. Restricted for Deferred Maintenance

Restricted for deferred maintenance represents available resources to be used only to provide for those activities having a useful life of five years or more. These include painting, carpet replacement, tuck pointing, replacement/repair of plumbing, electrical systems, HVAC, roofing. The cumulative excess/deficit of such revenues over expenditures is reported as a restriction of fund balance in the General Fund.

C. Restricted for Learning and Development

Restricted for learning and development represents available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

D. Restricted for Gifted and Talented

Restricted for gifted and talented represents available resourced to provide gifted and talented programming in accordance with funding made available for that purpose.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

E. Restricted for Basic Skills Program

Restricted for basic skills programs represents resources available for the Basic Skills uses listed in Minnesota statutes 126C.15, subd. 1.

F. Restricted for Health and Safety

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota statute, a deficit in this restriction generates specific future levy authority.

G. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase or equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

H. Restricted for Disabled Accessibility

Restricted for disabled accessibility represents available resources to be used only to provide for disabled accessibility projects.

I. Restricted for Safe School Crime

The fund balance restriction represents accumulated resources available to be expended for safe schools.

J. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

K. Restricted for Early Childhood and Family Education Programs

The fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

L. Restricted for School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

M. Restricted for Other Purposes

The fund balance restriction represents amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

Fund Equity (Continued)

N. Assigned for Severance

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance future severance payments to district employees upon retirement.

O. Assigned for Other Postemployment Benefits

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance other postemployment benefits.

P. Assigned for Playground Equipment

This assignment of fund balance in the General Fund is intended to set aside fund balance amounts to finance future playground equipment.

NOTE 7 PENSION PLANS

Substantially all employees of the District are required by State Law to belong to a pension plan administered by Teachers Retirement Association (TRA) or Public Employees' Retirement Association (PERA), both of which are administered on a statewide basis. Disclosure relating to these plans follows:

A. Teachers Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple-employer defined benefit pension plan administered by the Teachers Retirement Association (TRA). TRA 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 plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 PENSION PLANS (CONTINUED)

A. Teachers Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefit provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103-1855 or by calling (651) 296-6449 or 1-800-657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 6.0% for Coordinated Plan members and 9.5% for Basic Plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$154,483, \$150,854, and \$152,785, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, MN 55103-2008 or by calling (651) 296-7460 or 1-800-652-9026.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered payroll.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan members. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$34,904, \$40,152, and \$35,876, respectively, equal to the required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefit through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2012, 2011, and 2010 are \$27,956, \$37,505, and \$35,917, respectively. The related employee contributions were \$50,180, \$58,222, and \$53,985, for the years ended June 30, 2012, 2011, and 2010, respectively.

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the District's health insurance plan. There are 63 active participants, 1 retired participant and 1 spouse receiving payments. Benefit and eligibility provisions are established through negotiations between the District and various unions representing the District's employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and the union representatives. The District contributes 93% of the cost of current year health insurance and 100% of life insurance premiums for teachers and the Business and Personnel Associates. For the Superintendent, the District contributes 100% of health insurance premiums for him and his spouse and up to \$35 per month for dental insurance for him and his spouse. The other postemployment benefits are paid by the District until the retiree reaches the age of 65. For fiscal year 2012, the District contributed \$40,048.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB asset.

| | |
|--------------------------------------------|--------------------------|
| Annual Required Contribution | \$ 105,785 |
| Interest on Net OPEB Calculation | 5,808 |
| Adjustment to Annual Required Contribution | <u>(7,828)</u> |
| Annual OPEB Cost (Expense) | 103,765 |
| Contributions Made | <u>(40,048)</u> |
| Increase in Net OPEB Obligation | 63,717 |
| Net OPEB Obligation - Beginning of Year | <u>129,065</u> |
| Net OPEB Obligation - End of Year | <u><u>\$ 192,782</u></u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB liability for 2012 and the two preceding years are:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Liability |
|-------------------------|---------------------|-----------------------------------------------------|--------------------------|
| 6/30/2012 | \$ 103,765 | 38.6% | \$ 192,782 |
| 6/30/2011 | 104,610 | 51.2% | 129,065 |
| 6/30/2010 | 105,785 | 26.3% | 78,008 |

D. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the District unfunded actuarial accrued liability (UAAL) was \$863,667. The annual payroll for active employees covered by the plan in the actuarial valuation was \$2,855,128 for a ratio of UAAL to covered payroll of 30.2%.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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 to 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 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8% reduced by decrements to an ultimate rate of 5.0% after six years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2012 did not exceed 30 years.

NOTE 9 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan that is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which is from November 1 to October 31, 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 for the health care portion of the plan, whether or not such contributions have been made.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 FLEXIBLE BENEFIT PLAN (CONTINUED)

Payments of health insurance premiums 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, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

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

NOTE 10 SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is \$1,719 per participant. The District accounts for this plan in the General Fund. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred by not paid at year-end. The District recorded expenses of \$45,291 for the year ended June 30, 2012.

The liability for unpaid claims is included in the General Fund as accounts payable.

| | 2012 | 2011 |
|----------------------------------|-----------------|-----------------|
| Unpaid Claims, Beginning of Year | \$ 1,950 | \$ 1,981 |
| Incurred Claims | 45,291 | 40,188 |
| Claims Payments (Cash Basis) | (42,623) | (40,219) |
| Unpaid Claims, End of Year | <u>\$ 4,618</u> | <u>\$ 1,950</u> |

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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. The financial assistance received is subject to audits by the grantor agency.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2012**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|--------------------------|--------------------------|-----------------------------|---------------------------------------------------------------|
| 7/1/2011 | \$ - | \$ 863,667 | \$ 863,667 | 0.0% | \$ 2,855,128 | 30.2% |
| 7/1/2008 | - | 742,253 | 742,253 | 0.0% | 2,696,441 | 27.5% |

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OTHER REQUIRED REPORTS

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

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 as of and for the year ended June 30, 2012, which collectively comprise Independent School District No. 763's basic financial statements and have issued our report thereon dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 763's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying Summary of Findings and Responses listed as items 2012-01 through 2012-02 to be material weaknesses.

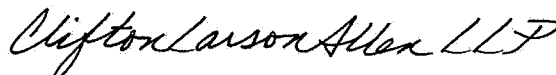
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 763's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Independent School District No. 763 in a separate letter dated November 16, 2012.

Independent School District No. 763's responses to the findings identified in our audit are described in the accompanying Summary of Findings and Responses. We did not audit Independent School District No. 763's responses and, accordingly, we express no opinion on them.

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



CliftonLarsonAllen LLP

Austin, Minnesota
November 16, 2012

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 763
Medford, Minnesota

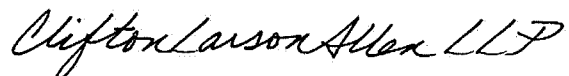
We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 16, 2012.

We conducted our audit 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 the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, the Independent School District No. 763 complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Independent School District No. 763, the Office of the State Auditor, and other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
November 16, 2012

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

Finding: 2012-01 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

- Condition:** The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.
- Criteria:** The District should have controls in place to prevent, or detect and correct, the omission of a material disclosure in the annual financial statements.
- Context:** The District has informed us that they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the financial statements.
- Effect:** The potential exists that a material disclosure could be omitted from the financial statements and not be prevented, or detected and corrected by the District's internal controls.
- Cause:** The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements prepared by the audit firm.
- Recommendation:** We recommend the District continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial statements is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Business Associate reviews the drafted financial statements and footnote disclosures prior to issuance of the annual financial statements. This includes comparing information with the financial statements and notes to UFARS and other District documents. The District will continue to rely upon the auditors for completeness of these disclosures.

Official Responsible for Ensuring CAP:

Lylia Iverson, Business Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2013

Plan to Monitor Completion of CAP:

The Medford School Board will be monitoring this corrective action plan.

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
SUMMARY OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Finding: 2012-02 Adjusting Journal Entries

- Condition:** The District made journal entries to adjust accounts to year-end balances. However, the audit firm identified certain misstatements and proposed journal entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria:** The District should have controls in place to prevent, or detect and correct a material misstatement in the financial statements in a timely manner.
- Context:** The District has informed us that they will continue to work with the audit firm to identify year-end adjustments, which are necessary to adjust accounts in accordance with GAAP.
- Effect:** The potential exists for the financial statements could be materially misstated and not be detected by the District's internal controls.
- Cause:** The District has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.
- Recommendation:** We recommend the District continue to work with the auditors to identify year-end journal entries that are necessary to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Business Associate will review current year adjusting journal entries proposed by auditors and attempt to eliminate any misstatements to the general ledger. She will also attend year-end meetings and workshops, in an effort to anticipate and record all necessary postings.

Official Responsible for Ensuring CAP:

Lylia Iverson, Business Associate, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2013

Plan to Monitor Completion of CAP:

John Currie, Superintendent, will be monitoring this corrective action plan.

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MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2012

01 GENERAL FUND

| | Audit | UFARS | Difference |
|------------------------------------|--------------|--------------|------------|
| Total Revenues | \$ 6,661,390 | \$ 6,661,381 | \$ 9 |
| Total Expenditures | \$ 6,417,518 | \$ 6,417,509 | \$ 9 |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | |
| 403 Staff Development | \$ 73,462 | \$ 73,462 | \$ - |
| 405 Deferred Maintenance | \$ 21,869 | \$ 21,869 | \$ - |
| 406 Health & Safety | \$ (16,131) | \$ (16,131) | \$ - |
| 407 Capital Project Levy | \$ - | \$ - | \$ - |
| 408 Cooperative Rev. | \$ - | \$ - | \$ - |
| 414 Operating Debt | \$ - | \$ - | \$ - |
| 416 Levy Reduction | \$ - | \$ - | \$ - |
| 423 Certain Teacher Programs | \$ - | \$ - | \$ - |
| 424 Operating Capital | \$ 75,314 | \$ 75,314 | \$ - |
| 426 \$25 Taconite | \$ - | \$ - | \$ - |
| 427 Disabled Accessibility | \$ 65,118 | \$ 65,118 | \$ - |
| 428 Learning & Development | \$ 13,164 | \$ 13,164 | \$ - |
| 434 Area Learning Center | \$ - | \$ - | \$ - |
| 435 Contracted Alt. Programs | \$ - | \$ - | \$ - |
| 436 St. Approved Alt. Prog. | \$ - | \$ - | \$ - |
| 438 Gifted & Talented | \$ 262 | \$ 262 | \$ - |
| 441 Basic Skills | \$ 4,609 | \$ 4,609 | \$ - |
| 445 Career and Tech. Programs | \$ - | \$ - | \$ - |
| 446 First Grade Preparedness | \$ - | \$ - | \$ - |
| 449 Safe Schools Levy | \$ 29,557 | \$ 29,557 | \$ - |
| 450 Pre-Kindergarten | \$ - | \$ - | \$ - |
| 451 QZAB Payments | \$ - | \$ - | \$ - |
| 452 OPEB Liab Not In Trust | \$ - | \$ - | \$ - |
| 453 Unfunded Sev & Retirement Levy | \$ - | \$ - | \$ - |
| 464 Other Purposes | \$ - | \$ - | \$ - |
| <i>Committed:</i> | | | |
| 418 Committed for Severance | \$ - | \$ - | \$ - |
| 461 Committed | \$ - | \$ - | \$ - |
| <i>Assigned:</i> | | | |
| 462 Assigned | \$ 698,737 | \$ 698,737 | \$ - |
| <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ 2,198,277 | \$ 2,198,277 | \$ - |

02 FOOD SERVICE

| | | | |
|---------------------------------|------------|------------|------|
| Total Revenues | \$ 427,284 | \$ 427,281 | \$ 3 |
| Total Expenditures | \$ 429,536 | \$ 429,534 | \$ 2 |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable | \$ 2,575 | \$ 2,575 | \$ - |
| <i>Restricted:</i> | | | |
| 452 OPEB Liability Not In Trust | \$ - | \$ - | \$ - |
| 464 Other Purposes | \$ 70,178 | \$ 70,177 | \$ 1 |
| <i>Unassigned:</i> | | | |
| 463 Unassigned | \$ - | \$ - | \$ - |

04 COMMUNITY SERVICE

| | | | |
|---------------------------------|------------|------------|--------|
| Total Revenues | \$ 172,181 | \$ 172,180 | \$ 1 |
| Total Expenditures | \$ 178,896 | \$ 178,896 | \$ - |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - |
| 431 Community Education | \$ 36,241 | \$ 36,242 | \$ (1) |
| 432 E.C.F.E. | \$ 9,718 | \$ 9,717 | \$ 1 |
| 444 School Readiness | \$ 1,051 | \$ 1,051 | \$ - |
| 447 Adult Basic Education | \$ - | \$ - | \$ - |
| 452 OPEB Liability Not In Trust | \$ - | \$ - | \$ - |
| 464 Other Purposes | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 463 Unassigned | \$ - | \$ - | \$ - |

06 BUILDING CONSTRUCTION

| | | | |
|------------------------------|------|------|------|
| Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | |
| 407 Capital Projects Levy | \$ - | \$ - | \$ - |
| 409 Alternative Fac. Program | \$ - | \$ - | \$ - |
| 413 Project Funded by COP | \$ - | \$ - | \$ - |
| 464 Other Purposes | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 463 Unassigned | \$ - | \$ - | \$ - |

07 DEBT SERVICE

| | | | |
|-----------------------------|------------|------------|------|
| Total Revenues | \$ 935,684 | \$ 935,684 | \$ - |
| Total Expenditures | \$ 950,019 | \$ 950,019 | \$ - |
| <i>Restricted/Reserved:</i> | | | |
| 425 Bond Refundings | \$ - | \$ - | \$ - |
| 451 QZAB Payments | \$ - | \$ - | \$ - |
| 464 Other Purposes | \$ 241,011 | \$ 241,011 | \$ - |
| <i>Unassigned:</i> | | | |
| 463 Unassigned | \$ - | \$ - | \$ - |

08 TRUST

| | | | |
|--------------------|-----------|-----------|------|
| Total Revenues | \$ 12,562 | \$ 12,562 | \$ - |
| Total Expenditures | \$ 14,350 | \$ 14,350 | \$ - |
| <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ 15,961 | \$ 15,961 | \$ - |

09 AGENCY

| | | | |
|-----------------------------------------|------|------|------|
| <i>Unassigned: Should Always Be -0-</i> | | | |
| 422 Unassigned | \$ - | \$ - | \$ - |

20 INTERNAL SERVICE

| | | | |
|--------------------|------|------|------|
| Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ - | \$ - | \$ - |

25 OPEB REVOCABLE TRUST

| | | | |
|--------------------|------|------|------|
| Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ - | \$ - | \$ - |

45 OPEB IRREVOCABLE TRUST

| | | | |
|--------------------|------|------|------|
| Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 422 Unassigned | \$ - | \$ - | \$ - |

47 OPEB DEBT SERVICE

| | | | |
|--------------------|------|------|------|
| Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | |
| 464 Other Purposes | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | |
| 463 Unassigned | \$ - | \$ - | \$ - |

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STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 763 for the year ended June 30, 2012. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practical for us to extend our audit of such cash collections beyond the amounts recorded.

As described in the Note to Student Activity Fund Financial Statements, the financial statement is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been subjected to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Fund as of June 30, 2012, and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in the Note to Student Activity Fund Financial Statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 16, 2012

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**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012**

| <u>Funds</u> | <u>Balance June 30, 2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Balance June 30, 2012</u> |
|------------------------|----------------------------------|-------------------|----------------------|----------------------------------|
| M Club | \$ 2,079 | \$ 11,689 | \$ 12,504 | \$ 1,264 |
| Art Club | - | 59 | - | 59 |
| Band | 5,092 | 4,126 | 3,301 | 5,917 |
| Bank | 101 | 30 | - | 131 |
| Tiger's Den | 605 | 2,307 | 2,530 | 382 |
| Elementary St. Council | 247 | 238 | 15 | 470 |
| FFA | 4,303 | 34,564 | 35,480 | 3,387 |
| Jr. High SADD | 217 | - | - | 217 |
| Miscellaneous | 1,049 | - | - | 1,049 |
| Music Activity | 3,330 | 9,792 | 10,169 | 2,953 |
| NHS | 54 | 1,045 | 865 | 234 |
| SADD | 974 | 1,726 | 1,505 | 1,195 |
| Science Club | 238 | - | - | 238 |
| Student Council | 6,732 | 42,549 | 48,790 | 491 |
| | <u>6,732</u> | <u>42,549</u> | <u>48,790</u> | <u>491</u> |
| Total | <u>\$ 25,021</u> | <u>\$ 108,125</u> | <u>\$ 115,159</u> | <u>\$ 17,987</u> |

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.



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REPORT ON COMPLIANCE

Board of Education
Independent School District No. 763
Medford, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular Student Activity Fund of Independent School District No. 763 for the year ended June 30, 2012 and have issued our report thereon dated November 16, 2012. In our report, the opinion was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Further the financial statements are prepared on a the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123.38.

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

The results of our tests indicate that, with respect to the items tested, the District complied, in all material respects, with the provisions in the preceding paragraph, except as noted in the Schedule of Findings as item 2012-1.

This report is intended solely for the information and use of the Board of Education, management, and students of Independent School District No. 763, the Minnesota Department of Education, the Office of the State Auditor of Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Austin, Minnesota
November 16, 2012

**MEDFORD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 763
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDING: 2012-1 MINNESOTA LEGAL COMPLIANCE – IMPROPER STUDENT ACTIVITY FUND

Condition: We noted that the District has a miscellaneous student activity fund. This is not an allowable fund as all funds must be run by students. We suggest that the District close out this fund at the end of each year.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will close out the miscellaneous fund at the end of each year.

Official Responsible for Ensuring CAP:

John Currie, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2013

Plan to Monitor Completion of CAP:

The Medford School Board will be monitoring this corrective action plan.

