

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2013

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INDEPENDENT SCHOOL DISTRICT NO. 882
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INTRODUCTORY SECTION

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2013**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Robbie Smith	01/01/14	Chairperson
Jeff Hegle	01/01/16	Vice Chairperson/Treasurer
Jill Bartlett	01/01/16	Secretary/Clerk
Scott Hill	01/01/14	Director
Jim Lindberg	01/01/16	Director
Liz Leitch-Sell	01/01/14	Director

ADMINISTRATION

Jim Johnson	Superintendent
Tina Burkholder	Business Manager
Linda Borgerding	Curriculum Director
Joel Lundin	Senior High School Principal
Jeff Scherber	Middle School Principal
Joe Dockendorf	Elementary School Principal
Brad Sanderson	Elementary School Principal
Eric Olson	Elementary School Principal
Gary Revenig	Athletic/Activities Director
Duane Gates	Community Education Director
Nan Records	Special Education Director
Susan Heidt	Technology Director
District Offices:	Independent School District No. 882 Monticello Public Schools 302 Washington Street Monticello, MN 55362 (763) 272-2000

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Independent School District No. 882
Monticello Public Schools
Monticello, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 882 (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for additional analysis and is not a required part of the basic financial statements. The Statement of Changes in Agency Fund Assets and Liabilities and the bond schedules are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information (Continued)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District 882's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 18, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

This section of Monticello Schools – Independent School District 882's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year include the following:

- The unassigned fund balance for the General Fund was \$3,300,297 and \$2,695,080 is assigned for retiree insurance premiums, ERRP, and special education excess cost revenue.
- Net position increased by \$3,470,100 from June 30, 2012, with total revenues of \$54,951,694 and total expenses of \$51,481,594.
- Overall General Fund revenues and other financing sources were \$46,565,150 as compared to \$45,775,045 of expenditures.
- The District planned an increase in fund balance for the General Fund of \$495,676 for the school year. However, the ending fund balance of the General Fund increased \$790,105 from the prior year due primarily to an overall increase in state sources, mainly Special Education Aid.

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.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

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

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

District-Wide Statements

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

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

- Over time, increases or decreases in the District's net position is 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.

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 explain the relationship (or differences) between them.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

- *Fiduciary Funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, The District currently has one agency fund for scholarships and the District's Postemployment Benefits Irrevocable Trust Fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was \$32,689,412 on June 30, 2013. This was an increase of approximately \$3.5 million from the prior year (see Table A-1).

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

	Governmental Activities		Percentage Change
	2013	2012	
Current and Other Assets	\$ 28,592,323	\$ 28,869,256	(0.96)%
Capital and Non-Current Assets	37,802,425	38,648,381	(2.19)
Total Assets	<u>66,394,748</u>	<u>67,517,637</u>	(1.66)
Current Liabilities	24,153,878	24,503,563	(1.43)
Long-Term Liabilities	9,551,458	13,794,762	(30.76)
Total Liabilities	<u>33,705,336</u>	<u>38,298,325</u>	(11.99)
Net Position:			
Net Investment in Capital Assets	25,135,009	21,653,918	16.08
Restricted	2,055,494	2,562,247	(19.78)
Unrestricted	5,498,909	5,003,147	9.91
Total Net Position	<u>\$ 32,689,412</u>	<u>\$ 29,219,312</u>	

The District's change in financial position is the product of many factors. Total Net Position of the District increased by \$3,470,100. Long-term liabilities decreased a net of approximately \$4 million due to the regular payment of general obligation bond debt. Capital Assets decreased approximately \$846,000 due to depreciation expense for the year exceeding the cost of current year additions.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Changes in Net Position

The District's total revenues were \$54,951,694 for the year ended June 30, 2013. Property taxes and state formula aid accounted for 64% of total revenue for the year.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total %
	2013	2012	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 4,359,134	\$ 4,942,632	(11.81)%
Operating Grants and Contributions	14,309,359	12,945,144	10.54
Capital Grants and Contributions	446,483	480,477	(7.08)
<u>General Revenues</u>			
Property Taxes	10,695,498	10,674,134	0.20
Unrestricted State Aid	24,200,096	24,018,379	0.76
Investment Earnings	42,885	95,297	(55.00)
Other	898,239	947,078	(5.16)
Total Revenues	54,951,694	54,103,141	1.57
Expenses			
Administration	1,238,134	1,216,697	1.76
District Support Services	674,478	603,853	11.70
Regular Instruction	19,757,587	19,396,341	1.86
Vocational Education Instruction	824,747	569,583	44.80
Special Education Instruction	13,076,583	12,637,148	3.48
Instructional Support Services	2,804,514	2,248,005	24.76
Pupil Support Services	3,408,107	3,196,743	6.61
Sites and Buildings	3,684,303	3,563,962	3.38
Fiscal and Other Fixed Cost Programs	171,889	161,381	6.51
Food Service	1,733,824	1,742,052	(0.47)
Community Service	2,527,475	2,514,577	0.51
Unallocated - Depreciation	1,102,166	1,111,084	(0.80)
Interest and Fiscal Charges on Long-Term Liabilities	477,787	694,614	(31.22)
Total Expenses	51,481,594	49,656,040	3.68
Increase in Net Position	3,470,100	4,447,101	
Net Position - July 1	29,219,312	24,772,211	
Ending Net Position	\$ 32,689,412	\$ 29,219,312	

The total cost of all programs and services, including interest and fiscal charges, was almost \$51.5 million. Total revenues exceeded expenses, increasing net position \$3,470,100 over last year.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The cost of all *governmental* activities this year was \$51,481,594

- Some of the cost was paid by the users of the District's programs (\$4,359,134).
- The federal and state governments subsidized certain programs with grants and contributions (\$14,755,842).
- A significant portion of governmental activities was paid for with \$10,695,498 in property taxes, \$24,200,096 of unrestricted 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 2013**

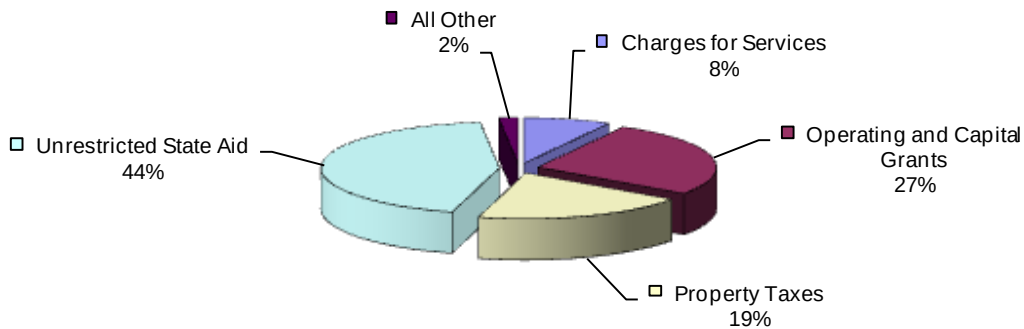
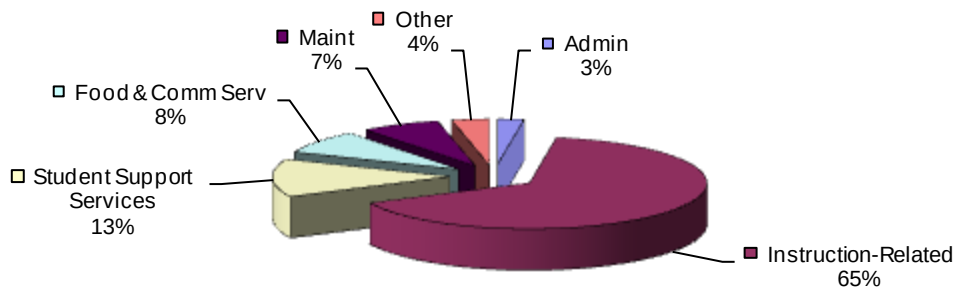


**Figure A-2
District Expenses for Fiscal 2013**



**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 includes not only funds received for the general operation of the district, which are used for classroom instruction, but also includes 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, 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 preceding 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. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of the District and that analysis would show that 78% of those resources are spent on instruction-related and student support services.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2013	2012		2013	2012	
Administration	\$ 1,238,134	\$ 1,216,697	1.76 %	\$ 1,238,134	\$ 1,216,697	1.76 %
District Support Services	674,478	603,853	11.70	674,478	567,110	18.93
Regular Instruction	19,757,587	19,396,341	1.86	16,776,144	15,715,004	6.75
Vocational Education Instruction	824,747	569,583	44.80	824,747	569,583	44.80
Special Education Instruction	13,076,583	12,637,148	3.48	1,679,369	2,457,408	(31.66)
Instructional Support Services	2,804,514	2,248,005	24.76	2,278,747	1,899,394	19.97
Pupil Support Services	3,408,107	3,196,743	6.61	3,398,601	3,194,150	6.40
Sites and Buildings	3,684,303	3,563,962	3.38	3,607,922	3,424,035	5.37
Fiscal and Other Fixed Cost Programs	171,889	161,381	6.51	171,889	161,381	6.51
Food Service	1,733,824	1,742,052	(0.47)	(34,656)	53,428	(164.86)
Community Service	2,527,475	2,514,577	0.51	171,290	223,899	(23.50)
Unallocated - Depreciation	1,102,166	1,111,084	(0.80)	1,102,166	1,111,084	(0.80)
Interest and Fiscal Charges on Long-Term Liabilities	477,787	694,614	(31.22)	477,787	694,614	(31.22)
Total	<u>\$ 51,481,594</u>	<u>\$ 49,656,040</u>	3.68	<u>\$ 32,366,618</u>	<u>\$ 31,287,787</u>	3.45

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 \$8,513,756 which is \$357,514 above last year's ending fund balance of \$8,156,242. Revenues and other financing sources for the District's governmental funds were \$61,511,492 while total expenditures and other financing uses were \$61,153,978. Other financing sources included Bond proceeds of \$5,970,000 and other financing uses included Payment to Refunded Bond Escrow Agent of \$5,975,000.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

GENERAL FUND

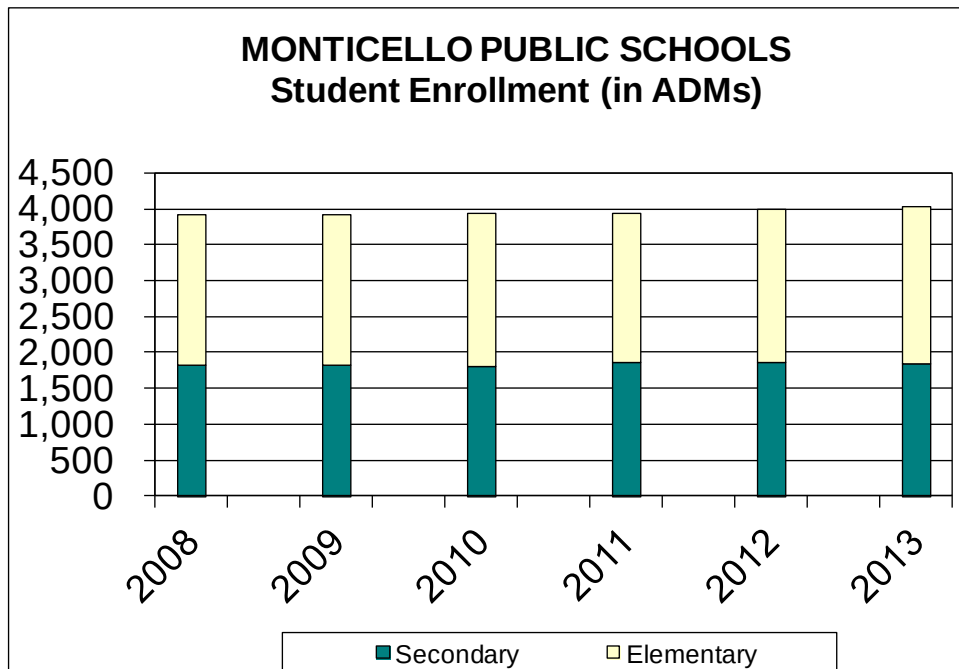
The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects. General Fund operational revenue is controlled by a complex set of state funding formulas 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. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately. The following chart shows that the number of students served has increased over the last couple years.

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

	2008	2009	2010	2011	2012	2013
Elementary	2,100	2,110	2,128	2,078	2,142	2,199
Secondary	1,809	1,806	1,798	1,843	1,847	1,830
Total Students for Aid	3,909	3,916	3,925	3,921	3,989	4,029
Percent Change	0.79%	0.18%	0.24%	-0.10%	1.72%	1.02%



In 2013, the District experienced an increase in enrollment served of 36 ADM's which is a direct reflection of the change in the enrollment options trend. This year more nonresident students are enrolling in the District.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2013	June 30, 2012	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 6,094,563	\$ 5,876,438	\$ 218,125	3.7 %
Earnings on Investments	41,930	91,269	(49,339)	(54.1)
Other	2,999,415	3,719,880	(720,465)	(19.4)
State Sources	33,987,270	31,687,604	2,299,666	7.3
Federal Sources	3,057,659	3,677,397	(619,738)	(16.9)
Total General Fund Revenue	<u>\$ 46,180,837</u>	<u>\$ 45,052,588</u>	<u>\$ 1,128,249</u>	2.5

Total General Fund Revenue increased by \$1,128,249 or 2.5% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists mostly of state aid revenue. Other state-authorized revenue including operating levy referendum, operating capital revenue 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 in total revenue.

Local property taxes increased by \$218,125 primarily due to the legislative change in the tax shift. State aid changed to reflect the increase due to the shift in funding.

Investment earnings decreased due to the decrease in the premium on the issuance of aid anticipation certificates.

Federal sources decreased due to the reduction in ARRA money received.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2013	June 30, 2012		
Salaries	\$ 25,987,669	\$ 25,314,950	\$ 672,719	2.7 %
Employee Benefits	10,484,157	10,184,409	299,748	2.9
Purchased Services	5,838,509	5,151,989	686,520	13.3
Supplies and Materials	1,552,613	1,404,304	148,309	10.6
Capital Expenditures	1,623,147	979,434	643,713	65.7
Other Expenditures	288,950	372,279	(83,329)	(22.4)
Total Expenditures	<u>\$ 45,775,045</u>	<u>\$ 43,407,365</u>	<u>\$ 2,367,680</u>	5.5

Total General Fund Expenditures increased \$2,367,680 from the previous year. The change in change in salaries and employee benefits is due to the wage increase and hiring 4.5 FTE additional employees. Capital expenditures increased due to a capital lease that was added in the current year.

In 2012-2013, General Fund revenues and other financing sources exceeded expenditures by \$790,105. Therefore, total fund balance increased to \$6,697,494 at June 30, 2013. The unassigned fund balance increased from \$2,928,881 at June 30, 2012 to \$3,300,297 at June 30, 2013.

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$3,300,297 at June 30, 2013 represents 7.2% of annual expenditures or four weeks of operations.

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 typically 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 accounts.
- Legislation passed subsequent to budget adoption, changes necessitated by collective bargaining agreements, changes in student enrollments, staffing changes, and increases in appropriations for significant unbudgeted costs.

Actual revenues and other financing sources were \$691,007 more than expected from budget. A large portion of this was due to increased special education revenue and capital lease proceeds. The actual expenditures were \$396,578 over budget.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FOOD SERVICE FUNDS

Revenues and other financing sources exceeded expenditures in the Food Service Fund by \$39,642. Most of this gain came from an increase in federal revenue.

COMMUNITY SERVICE FUNDS

Revenues exceeded expenditures in the Community Service Fund by \$16,582. Most of this gain came from monitoring expenses to save additional dollars for future expenses in all program areas in the Community Service Fund and an increase in program tuition and fees.

DEBT SERVICE FUNDS

The Debt Service Fund expenditures and other financing uses exceeded revenues and other financing sources by \$488,815 in 2012-2013 for the regular debt service account. This was due to the net impact of increases in debt payments and refunding bond activity.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested about \$73.2 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 \$2,033,642.

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

	2013	2012	Percentage Change
Land	\$ 5,000	\$ 5,000	-
Construction in Progress	103,080	-	-
Land Improvements	4,158,144	4,132,544	0.6
Buildings and Improvements	61,671,490	61,358,982	0.5
Equipment	7,305,482	6,642,127	10.0
Less: Accumulated Depreciation	<u>(35,440,771)</u>	<u>(33,490,272)</u>	5.8
Total	<u>\$ 37,802,425</u>	<u>\$ 38,648,381</u>	(2.2)

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Construction – Next Five Years

The District continually monitors growth to plan for needed capacity expansion. Current projections suggest that building capacity district-wide appears to be adequate for the next decade.

Long-Term Liabilities

At year-end, the District had \$11,980,782 in general obligation bonds outstanding, net bond premium and discount – a decrease of 27.3% from last year – as shown in Note 6 to the financial statements.

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

	2013	2012	Percentage Change
General Obligation Bonds	\$ 11,455,000	\$ 15,875,000	(27.8)%
Net Bond Premium and (Discount)	525,782	598,491	(12.1)
Obligations Under Capital Leases	493,917	242,866	103.4
Sick Leave Payable	123,439	151,405	(18.5)
Supplemental Pension Benefits Payable	26,464	71,927	100.0
Other Postemployment Benefits Payable	1,556,518	1,239,425	25.6
Compensated Absences Payable	122,708	129,131	(5.0)
Total	<u>\$ 14,303,828</u>	<u>\$ 18,308,245</u>	(21.9)
Long-Term Liabilities:			
Due Within One Year	\$ 4,752,370	\$ 4,513,483	
Due in More than One Year	9,551,458	13,794,762	
Total	<u>\$ 14,303,828</u>	<u>\$ 18,308,245</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The passing of an operating referendum in November of 2007 has allowed the District to maintain class size while meeting the goal of enhancing student achievement. However, due to the dependence of schools on legislative funding, it is a challenge to look forward and project what the future may hold for the District beyond the two year legislative biennium.

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

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 882, District Office, 302 Washington Street, Monticello, Minnesota 55362.

Bond Ratings

The District's bonds presently carry a Moody's "AA+" rating .

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt is significantly below this limit – which is currently \$319 million.

BASIC FINANCIAL STATEMENTS

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 16,133,539
Receivables:	
Property Taxes	5,542,076
Other Governments	5,357,531
Other	281,005
Prepaid Items	563,097
Inventories	102,910
Equity Interest in Joint Venture	585,201
Bond Issuance Costs, Net	26,964
Capital Assets:	
Land	5,000
Construction in Process	103,080
Other Capital Assets, Net of Depreciation	37,694,345
Total Assets	<u>66,394,748</u>
LIABILITIES	
Short-Term Borrowing	4,200,000
Salaries Payable	4,769,434
Accounts and Contracts Payable	761,148
Accrued Interest	236,467
Due to Other Governmental Units	78,149
Due to Other Minnesota School Districts	824,935
Severance Payable	209,719
Unearned Revenue:	
Property Taxes	7,696,647
Local Sources	625,009
Long-Term Liabilities:	
Portion Due Within One Year	4,752,370
Portion Due in More Than One Year	9,551,458
Total Liabilities	<u>33,705,336</u>
NET POSITION	
Net Investment in Capital Assets	25,135,009
Restricted for:	
General Fund Operating Capital Purposes	119,920
Food Service	48,728
Community Service	567,679
Debt Service	1,319,167
Unrestricted	5,498,909
Total Net Position	<u>\$ 32,689,412</u>

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

					Net (Expense) Revenue and Changes in Net Position
Functions	Expenses	Program Revenues			Total Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 1,238,134	\$ -	\$ -	\$ -	\$ (1,238,134)
District Support Services	674,478	-	-	-	(674,478)
Regular Instruction	19,757,587	675,556	2,290,099	15,788	(16,776,144)
Vocational Education Instruction	824,747	-	-	-	(824,747)
Special Education Instruction	13,076,583	1,533,286	9,863,928	-	(1,679,369)
Instructional Support Services	2,804,514	-	158,749	367,018	(2,278,747)
Pupil Support Services	3,408,107	4,925	4,581	-	(3,398,601)
Sites and Buildings	3,684,303	-	12,704	63,677	(3,607,922)
Fiscal and Other Fixed Cost Programs	171,889	-	-	-	(171,889)
Food Service	1,733,824	992,863	775,617	-	34,656
Community Service	2,527,475	1,152,504	1,203,681	-	(171,290)
Interest and Fiscal Charges on					
Long-Term Liabilities	477,787	-	-	-	(477,787)
Unallocated - Depreciation	1,102,166	-	-	-	(1,102,166)
Total School District	<u>\$ 51,481,594</u>	<u>\$ 4,359,134</u>	<u>\$ 14,309,359</u>	<u>\$ 446,483</u>	(32,366,618)
General Revenues					
Property Taxes Levied for:					
General Purposes					6,022,840
Community Service					257,587
Debt Service					4,415,071
State Aid Not Restricted to Specific Purposes					24,200,096
Earnings on Investments					42,885
Miscellaneous					898,239
Total General Revenues					<u>35,836,718</u>
Change in Net Position					3,470,100
Net Position - Beginning					<u>29,219,312</u>
Net Position - Ending					\$ 32,689,412

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	Major Funds				Total Governmental Funds
	General	Food Service	Community Service	Debt Service	
ASSETS					
Cash and Investments	\$ 11,301,258	\$ 168,104	\$ 1,059,415	\$ 3,604,762	\$ 16,133,539
Receivables:					
Current Property Taxes	2,842,411	-	125,919	2,316,135	5,284,465
Delinquent Property Taxes	138,299	-	6,121	113,191	257,611
Due from Other Minnesota School Districts	169,616	-	-	-	169,616
Due from Minnesota Department of Education	4,475,669	1,330	152,668	1,935	4,631,602
Due from Federal through Minnesota Department of Education	532,776	21,006	2,531	-	556,313
Due from Other Governmental Units	-	-	-	-	-
Other Receivables	211,176	-	69,829	-	281,005
Prepaid Items	563,097	-	-	-	563,097
Inventory	79,829	22,458	623	-	102,910
Total Assets	\$ 20,314,131	\$ 212,898	\$ 1,417,106	\$ 6,036,023	\$ 27,980,158
LIABILITIES AND FUND BALANCE					
Liabilities:					
Short-Term Borrowing	\$ 4,200,000	\$ -	\$ -	\$ -	\$ 4,200,000
Salaries Payable	2,110,662	32,263	44,650	-	2,187,575
Payroll Deductions and Employer Contributions Payable	2,471,237	49,721	60,901	-	2,581,859
Accounts and Contracts Payable	605,656	38,358	117,134	-	761,148
Due to Other Governmental Units	76,158	-	1,991	-	78,149
Due to Other Minnesota School Districts	470,212	-	354,723	-	824,935
Due to Other Funds	-	-	-	-	-
Accrued Interest Payable	43,750	-	-	-	43,750
Severance Payable	151,094	-	58,625	-	209,719
Unearned Revenue:					
Property Taxes Levied for Subsequent Year	2,847,982	-	131,809	4,716,856	7,696,647
Delinquent Property Taxes	138,299	-	6,121	113,191	257,611
Local Sources	501,587	43,828	79,594	-	625,009
Total Liabilities	13,616,637	164,170	855,548	4,830,047	19,466,402
Fund Balance					
Nonspendable:					
Prepaid Items	563,097	-	-	-	563,097
Inventory	79,829	22,458	623	-	102,910
Restricted:					
Health and Safety	(60,729)	-	-	-	(60,729)
Operating Capital	119,920	-	-	-	119,920
Community Education Programs	-	-	172,950	-	172,950
Early Childhood and Family Educations Programs	-	-	24,680	-	24,680
School Readiness	-	-	21,907	-	21,907
Adult Basic Education	-	-	185,290	-	185,290
Other Restricted	-	26,270	156,108	1,205,976	1,388,354
Assigned:					
ERRP	278,270	-	-	-	278,270
Potential Special Education Excess Cost Revenue	342,126	-	-	-	342,126
Separation/Retirement Benefits	2,074,684	-	-	-	2,074,684
Unassigned	3,300,297	-	-	-	3,300,297
Total Fund Balance	6,697,494	48,728	561,558	1,205,976	8,513,756
Total Liabilities and Fund Balance	\$ 20,314,131	\$ 212,898	\$ 1,417,106	\$ 6,036,023	\$ 27,980,158

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance for Governmental Funds \$ 8,513,756

Total net position reported for governmental activities in the statement of net position 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	5,000
Construction in Progress	103,080
Land Improvements, Net of Accumulated Depreciation	1,520,057
Buildings and Improvements, Net of Accumulated Depreciation	33,915,296
Equipment, Net of Accumulated Depreciation	2,258,992

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.	257,611
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Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(192,717)
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Bond issuance costs are reported as expenditures in the governmental funds.	26,964
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Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.

Equity Interest in Joint Venture - Wright Technical Center	585,201
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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 position. Balances at year-end are:

Bonds Payable	(11,455,000)
Unamortized Premiums	(525,782)
Obligations Under Capital Leases	(493,917)
Supplemental Pension	(26,464)
Sick Leave	(123,439)
Other Postemployment Benefits Payable	(1,556,518)
Compensated Absences Payable	(122,708)

Total Net Position of Governmental Activities	\$ 32,689,412
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**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2013**

	Major Funds				Total Governmental Funds
	General	Food Service	Community Service	Debt Service	
REVENUES					
Local Sources:					
Property Taxes	\$ 6,094,563	\$ -	\$ 260,654	\$ 4,467,647	\$ 10,822,864
Earnings on Investments	41,930	61	213	681	42,885
Other	2,999,415	992,863	1,265,013	-	5,257,291
State Sources	33,987,270	61,735	1,092,952	14,225	35,156,182
Federal Sources	3,057,659	713,882	28,215	-	3,799,756
Total Revenues	46,180,837	1,768,541	2,647,047	4,482,553	55,078,978
EXPENDITURES					
Current:					
Administration	1,238,962	-	-	-	1,238,962
District Support Services	663,804	-	-	-	663,804
Regular Instruction	19,463,733	-	-	-	19,463,733
Vocational Education Instruction	820,505	-	-	-	820,505
Special Education Instruction	12,971,354	-	-	-	12,971,354
Instructional Support Services	1,868,483	-	-	-	1,868,483
Pupil Support Services	3,406,058	-	-	-	3,406,058
Sites and Buildings	3,332,848	-	-	-	3,332,848
Fiscal and Other Fixed Cost Programs	171,889	-	-	-	171,889
Food Service	-	1,723,438	-	-	1,723,438
Community Service	-	-	2,575,700	-	2,575,700
Capital Outlay	1,623,147	10,386	54,765	-	1,688,298
Debt Service:					
Principal	133,262	-	-	4,415,000	4,548,262
Interest and Fiscal Charges	81,000	-	-	624,644	705,644
Total Expenditures	45,775,045	1,733,824	2,630,465	5,039,644	55,178,978
Excess (Deficiency) of Revenues Over (Under) Expenditures	405,792	34,717	16,582	(557,091)	(100,000)
OTHER FINANCING SOURCES					
Proceeds from Sale of Equipment	-	4,925	-	-	4,925
Bond Proceeds	-	-	-	5,970,000	5,970,000
Capital Lease Proceeds	384,313	-	-	-	384,313
Bond Premium (Discount)	-	-	-	73,276	73,276
Payment on Refunded Bonds	-	-	-	(5,975,000)	(5,975,000)
Total Other Financing Sources	384,313	4,925	-	68,276	457,514
Net Change in Fund Balances	790,105	39,642	16,582	(488,815)	357,514
Fund Balances - Beginning	5,907,389	9,086	544,976	1,694,791	8,156,242
Fund Balances - Ending	\$ 6,697,494	\$ 48,728	\$ 561,558	\$ 1,205,976	\$ 8,513,756

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balance - Total Governmental Funds	\$ 357,514
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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. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays	1,192,529
Gain (Loss) on Disposal of Capital Assets	82
Proceeds from Sales of Capital Assets	(4,925)
Depreciation Expense	(2,033,642)

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 position, 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 position.

Other Financing Source - Capital Lease Proceeds	(384,313)
Change in Accrued Interest Expense - Capital Leases	(3,055)
Principal Payments - Capital Leases	133,262

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, 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	(5,970,000)
Payment on Refunded Bonds	5,975,000
Bond Discount (Premium)	(73,276)
Repayment of Bond Principal	4,415,000
Change in Accrued Interest Expense - General Obligation Bonds	88,444
Amortization of Bond Issuance Costs	(3,517)
Amortization of Bond Premium	145,985

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.	(127,366)
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Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	(381)
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In the statement of activities, certain operating expenses - severance benefits and compensated absences - 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).

Change in Net Position of Governmental Activities	<u>(237,241)</u> \$ 3,470,100
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**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources:				
Property Taxes	\$ 5,776,563	\$ 6,035,091	\$ 6,094,563	\$ 59,472
Earnings on Investments	20,000	10,000	41,930	31,930
Other	3,152,338	3,384,671	2,999,415	(385,256)
State Sources	32,924,318	33,547,361	33,987,270	439,909
Federal Sources	2,719,914	2,885,020	3,057,659	172,639
Total Revenues	44,593,133	45,862,143	46,180,837	318,694
EXPENDITURES				
Current:				
Administration	1,390,818	1,225,411	1,238,962	13,551
District Support Services	1,485,586	833,339	663,804	(169,535)
Elementary and Secondary Regular Instruction	19,056,904	19,347,109	19,463,733	116,624
Vocational Education Instruction	510,380	606,857	820,505	213,648
Special Education Instruction	12,742,888	12,941,230	12,971,354	30,124
Instructional Support Services	1,743,691	1,839,204	1,868,483	29,279
Pupil Support Services	2,644,465	3,250,108	3,406,058	155,950
Sites and Buildings	3,211,727	3,463,505	3,332,848	(130,657)
Fiscal and Other Fixed Cost Programs	160,000	171,865	171,889	24
Capital Outlay	1,033,666	1,451,577	1,623,147	171,570
Debt Service:				
Principal	173,325	133,262	133,262	-
Interest and Fiscal Charges	115,000	115,000	81,000	(34,000)
Total Expenditures	44,268,450	45,378,467	45,775,045	396,578
Excess (Deficiency) of Revenues Over (Under) Expenditures	324,683	483,676	405,792	(77,884)
OTHER FINANCING SOURCES				
Proceeds from Sale of Equipment	-	2,000	-	(2,000)
Insurance Recovery Proceeds	-	10,000	-	(10,000)
Capital Lease Proceeds	-	-	384,313	384,313
Total Other Financing Sources	-	12,000	384,313	372,313
Net Change in Fund Balance	\$ 324,683	\$ 495,676	790,105	\$ 294,429
FUND BALANCE				
Beginning of Year			5,907,389	
End of Year			\$ 6,697,494	

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MAJOR FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Over
	Original	Final	Amounts	(Under) Final Budget
REVENUES				
Local Sources:				
Earnings on Investments	\$ 658	\$ 200	\$ 61	\$ (139)
Other - Primarily Meal Sales	1,025,179	1,032,855	992,863	(39,992)
State Sources	71,900	64,555	61,735	(2,820)
Federal Sources	605,637	679,484	713,882	34,398
Total Revenues	1,703,374	1,777,094	1,768,541	(8,553)
EXPENDITURES				
Current:				
Food Service	1,697,146	1,722,730	1,723,438	708
Capital Outlay	-	12,000	10,386	(1,614)
Total Expenditures	1,697,146	1,734,730	1,733,824	(906)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	6,228	42,364	34,717	(7,647)
OTHER FINANCING SOURCES				
Proceeds from Sale of Equipment	-	4,800	4,925	125
Net Change in Fund Balance	\$ 6,228	\$ 47,164	39,642	\$ (7,522)
FUND BALANCE				
Beginning of Year			9,086	
End of Year			\$ 48,728	

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
MAJOR COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Under)</u>
				<u>Final</u>
				<u>Budget</u>
REVENUES				
Local Sources:				
Property Taxes	\$ 260,027	\$ 260,027	\$ 260,654	\$ 627
Earnings on Investments	16,000	16,000	213	(15,787)
Other - Primarily Tuition and Fees	1,224,090	1,196,796	1,265,013	68,217
State Sources	1,087,378	1,087,378	1,092,952	5,574
Federal Sources	34,643	28,215	28,215	-
Total Revenues	2,622,138	2,588,416	2,647,047	58,631
EXPENDITURES				
Current:				
Community Service	2,663,809	2,590,043	2,575,700	(14,343)
Capital Outlay	52,113	38,968	54,765	15,797
Total Expenditures	2,715,922	2,629,011	2,630,465	1,454
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (93,784)</u>	<u>\$ (40,595)</u>	16,582	<u>\$ 57,177</u>
FUND BALANCE				
Beginning of Year			544,976	
End of Year			<u>\$ 561,558</u>	

See accompanying Notes to Basic Financial Statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>Agency Fund</u>	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ASSETS		
Cash and Investments	<u>\$ 1,276,075</u>	\$ 1,791,193
LIABILITIES		
Accounts Payable	<u>\$ 1,276,075</u>	<u>-</u>
NET POSITION		
Held in Trust for Employee Benefits		<u>\$ 1,791,193</u>

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013**

	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ADDITIONS	
Earnings on Investments	\$ 45,253
Employer Contributions	<u>100,000</u>
Total Additions	145,253
Net Position - Beginning of Year	<u>1,645,940</u>
Net Position - End of Year	<u>\$ 1,791,193</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 882 have been prepared in conformity with U.S. generally accepted accounting principles (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. This financial report has been prepared in conformity with GASB Statement No. 34.

B. Financial Reporting Entity

Independent School District No. 882 (the District) is an instrumentality of the State of Minnesota established to function as an educational 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.

GAAP require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated 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. There are no other entities for which the District is financially accountable.

The Student activity accounts of the District are under the Board's control; therefore, activity is included with the General Fund activity.

C. Basic Financial Statement Presentation

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

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the statement of activities. 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 government-wide financial statements.

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

The Trust and Agency Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the 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.

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 as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. 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 revenues 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.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

The District reports unearned revenue on its statement of net position and balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned 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 a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position or the 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 the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. 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 are generated from user fees, federal reimbursements and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood family education or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state aids.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Fiduciary Funds

Postemployment Benefits Irrevocable Trust Fund

This Fund is used to account for resources set aside and held in an irrevocable trust agreement to be used for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

Agency Fund

This Fund is used to account for resources held by the District in a custodial capacity to be used for scholarships.

E. Budgeting

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

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

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

The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board.

Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Encumbrances represent outstanding purchase orders and unfulfilled commitments that are issued to outside vendors and budgeted in the current year, but do not include amounts that are set up as liabilities, amounts for services to be performed by District employees and purchase orders applicable to the subsequent year's budget. As of June 30, 2013, no outstanding encumbrances existed.

Budgeted amounts include mid-year budget amendments that increased or decreased revenue and expenditure budgets as follows:

<u>Revenues</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 44,593,133	\$ 1,269,010	\$ 45,862,143
Special Revenue Funds:			
Food Service Fund	1,703,374	73,720	1,777,094
Community Service Fund	2,622,138	(33,722)	2,588,416
 <u>Expenditures</u>			
General Fund	\$ 44,268,450	\$ 1,110,017	\$ 45,378,467
Special Revenue Funds:			
Food Service Fund	1,697,146	37,584	1,734,730
Community Service Fund	2,715,922	(86,911)	2,629,011

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

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

F. Cash and Investments

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.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (Continued)

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

G. Accounts Receivable

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

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, transportation fuel and repair parts, and surplus commodities received from the federal government. Food and supply 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. Prepaid Items

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

J. Property Taxes

Property tax levies are established by the 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 and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

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). 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 (frozen at \$480,526) for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. In fiscal year 2013, the net tax shift was a decrease of \$46,710 for the General Fund and a decrease of \$1,744 for the Community Service Fund. Since advance collections of Pay 2013 levy amounts at June 30, 2013 were sufficient to cover the amounts required to be advance recognized as revenue in fiscal 2013, the amount advance recognized is tax revenue. To the extent advance collections would have been insufficient to cover the amount to be advance recognized, state statute requires that fiscal 2014 general education aid be recognized. Certain other portions of the District's 2012 pay 2013 levy, normally revenue for the 2013-2014 fiscal year, are also advance recognized at June 30, 2013, 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, 2013, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statement, 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 and construction in progress.

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 buildings or other improvable property.

L. Long-Term Obligations

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

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

M. Accrued Employee Benefits

Vacation

District employees earn vacation days based upon the number of completed years of service. The District compensates employees for unused vacation upon termination of employment. The amount of compensated absences for vacation is recorded in the statement of net position.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Sick Leave

The District maintains various sick leave plans for its employee groups. District office secretaries, paraprofessionals, custodians, secretaries and food service employees receive payment for a set number of sick days after reaching age 55 and completing 10 years of service. This is paid to employees upon retirement from the District.

Severance

The District maintains various severance plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. The related liability was actuarially determined, in accordance with GASB Statement No. 27.

Postemployment Health Care Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District is required to pay the health and dental insurance premiums for retired employees until they reach specified age requirements such as Medicare eligibility. Dental retiree insurance is only given to the administrators. These plans are no longer available to employees hired subsequent to July 1, 2000, based on the collectively bargained employment contracts. GASB Statement No. 45 was implemented prospectively, meaning that the net OPEB obligation was zero at transition. The OPEB liability is being amortized (phased-in) over 30 years as allowed by GASB Statement No. 45.

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Budget Committee to assign fund balances more than \$25,000 and their intended uses. Unassigned fund balances are considered the remaining amounts. 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 amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

It is also the District's policy to strive to maintain a minimum unassigned General Fund balance of 6% of the annual budget, with a target maximum of 10% of the expenditure budget in the General Fund. The effective date shall be June 30, the last day of each fiscal year. The fund balance and fund balance guidelines will be reviewed by the School District on an ongoing basis.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

P. Net Position

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

Q. Use of Estimates

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2013.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 45,378,467	\$ 45,775,045	\$ 396,578
Special Revenue Funds:			
Community Service Fund	\$ 2,629,011	\$ 2,630,465	\$ 1,454

The overage was considered by District management to be the result of necessary expenditures critical to operations and was approved by the Board.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS

A. 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 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 per the deposit and investment policy.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District has a deposit policy for custodial credit risk which follows Minnesota Statutes for deposits.

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.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District's deposits in various banks at June 30, 2013 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

With the exception of Fiduciary Funds held in the District's Postemployment Benefits Irrevocable Trust Fund, the District may invest its 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, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a 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

Fiduciary Funds held in the District's Postemployment Benefits Irrevocable Trust Fund may be invested as authorized by Minnesota Statutes Chapter 356A.

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

	Amortized Cost/ Fair Value
MSDLAF	\$ 1,258,225
MN Investment Shares	8,308,756
Guaranteed Investment Contract	1,791,193
Insurance Annuity	100,937
Negotiable Certificates of Deposit	3,730,442
Total Investments	<u>\$ 15,189,553</u>

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The MSDLAF+ is an external investment pool and its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

The MN Trust Investment Share is a money market fund registered under the Investment Act of 1940, meets the conditions of rule 2a-7 of the SEC and holds investments with final maturities less than 13 months.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy states the District shall manage investments in a manner to attain market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements. The District's investment policy also includes structuring the investment portfolio so that funds are available to meet immediate payment requirements. Information about the sensitivity of the fair values of the School District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the School District's investments by maturity:

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
Guaranteed Investment Contract	\$ 1,791,193	\$ 1,791,193	\$ -	\$ -
Insurance Annuity	100,937	100,937	-	-
Negotiable Certificates of Deposit	3,730,441	3,730,441	-	-
Total	<u>\$ 5,622,571</u>	<u>\$ 5,622,571</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy states the District may invest its available funds in those instruments specified in Minnesota Statutes 118A.04 and 118A.05. The following chart summarizes year-end ratings for the School District's investments as rated by Moody's Investors Service:

Type	Credit Quality Rating	Amount
MSDLAF	AAAm	\$ 1,258,225
MN Investment Shares	AAAm	8,308,756
Guaranteed Investment Contract	AA	1,791,193
Insurance Annuity	AA	100,937
Negotiable Certificates of Deposit	NR	3,730,442
Total		<u>\$ 15,189,553</u>

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk – The District's policy states the District may invest in any one issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The following is a list of investments which individually comprise more that 5% of the School District's total investments:

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
American United Life Insurance Company	\$ 1,791,193	11.79%

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy states all investment securities purchased by the District shall be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be any federal reserve bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in the U.S. government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in Minnesota Statutes 118A.06. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks and other pertinent information.

The deposits and investments are made up of the following:

Deposits	\$ 4,011,254
Negotiable Certificates of Deposits	3,730,442
Minnesota School District Liquid Asset Fund (MSDLAF)	1,258,225
Investments	10,200,886
Total Deposits and Investments	<u>\$ 19,200,807</u>

The deposits and investments are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 16,133,539
Cash and Investments - Statement of Fiduciary Fund Net Position	3,067,268
Total Cash and Investments	<u>\$ 19,200,807</u>

**MONTICELLO PUBLIC SCHOOLS
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NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in Progress	-	103,080	-	103,080
Total Capital Assets, Not Being Depreciated	5,000	103,080	-	108,080
Capital Assets, Being Depreciated:				
Land Improvements	4,132,544	25,600	-	4,158,144
Buildings and Improvements	61,358,982	312,508	-	61,671,490
Equipment	6,642,127	751,341	(87,986)	7,305,482
Total Capital Assets, Being Depreciated	72,133,653	1,089,449	(87,986)	73,135,116
Accumulated Depreciation for:				
Land Improvements	(2,510,137)	(127,950)	-	(2,638,087)
Buildings and Improvements	(26,328,864)	(1,427,330)	-	(27,756,194)
Equipment	(4,651,271)	(478,362)	83,143	(5,046,490)
Total Accumulated Depreciation	(33,490,272)	(2,033,642)	83,143	(35,440,771)
Total Capital Assets, Being Depreciated, Net	38,643,381	(944,193)	(4,843)	37,694,345
Governmental Activities Capital Assets, Net	<u>\$ 38,648,381</u>	<u>\$ (841,113)</u>	<u>\$ (4,843)</u>	<u>\$ 37,802,425</u>

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

Governmental Activities	
District Support Services	\$ 7,136
Regular Instruction	52,618
Vocational Education Instruction	130
Special Education Instruction	12,014
Instructional Support Services	284,851
Pupil Support Services	36,756
Sites and Buildings	511,269
Community Service	26,702
Unallocated	1,102,166
Total Depreciation Expense, Governmental Activities	<u>\$ 2,033,642</u>

NOTE 5 AID ANTICIPATION CERTIFICATES

The District sold aid anticipation certificates dated July 28, 2011, with a value of \$5,000,000 at an interest rate of 2.00%. These certificates matured and were repaid on August 28, 2012. The District sold additional aid anticipation certificates dated August 20, 2012, with a value of \$4,200,000 at an interest rate of 2.00%. The certificates mature on September 20, 2013. Interest and fiscal charges on aid anticipation certificates for the year ended June 30, 2013 in the General Fund totaled \$60,417.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 AID ANTICIPATION CERTIFICATES (CONTINUED)

	Beginning Balance	Additions	Retirements	Ending Balance
2011A Aid Anticipation Certificates	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
2012A Aid Anticipation Certificates	-	4,200,000	-	4,200,000
Total Balance	<u>\$ 5,000,000</u>	<u>\$ 4,200,000</u>	<u>\$ 5,000,000</u>	<u>\$ 4,200,000</u>

NOTE 6 LONG-TERM LIABILITIES

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

A. Components of Long-Term Debt

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
6/27/2007	4.00% - 4.50%	\$ 4,555,000	2/1/2016	\$ 785,000	\$ 2,580,000
2/24/2010	2.00% - 4.00%	6,960,000	2/1/2021	1,360,000	6,545,000
8/13/2012	2.00%	5,970,000	2/1/2014	2,330,000	2,330,000
Total General Obligation Bonds				4,475,000	11,455,000
Bond Premium - Net				145,985	525,782
Lease Purchase Obligations:					
Phone Equipment				58,304	188,730
Cisco Server Lease				73,081	305,187
Total Leases Purchase Obligations				131,385	493,917
Sick Leave Payable				-	123,439
Supplemental Pension Benefits Payable				-	26,464
Other Postemployment Benefits Payable				-	1,556,518
Compensated Absences Payable				-	122,708
				<u>\$ 4,752,370</u>	<u>\$ 14,303,828</u>

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds Payable</u>		<u>Capital Lease Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,475,000	\$ 410,300	\$ 131,385	\$ 23,316
2015	4,710,000	288,175	137,978	16,723
2016	1,395,000	97,000	144,979	9,724
2017	160,000	35,000	79,575	2,290
2018	165,000	28,600	-	-
2019 - 2021	550,000	44,600	-	-
Total	<u>\$ 11,455,000</u>	<u>\$ 903,675</u>	<u>\$ 493,917</u>	<u>\$ 52,053</u>

C. Description of Long-Term Debt

1. General Obligation School Building Bonds

These bonds were issued to finance acquisition and/or construction/improvement of capital facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. Total deferred tax levies available to retire bond principal and interest payable at June 30, 2013 is \$12,976,609. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Statute.

On August 13, 2012, the District issued \$5,970,000 General Obligation Refunding Bonds, Series 2012B to currently refund \$5,975,000 on the 2005 General Obligation School Building Refunding Bonds. The refunding was undertaken to reduce future interest costs and resulting in a savings of \$123,894 and an economic gain of \$122,045.

2. Capital Lease

On October 1, 2007, the District entered into a lease purchase agreement for the acquisition of a phone system. The capital lease obligation and corresponding equipment totaled \$455,970. The capital lease agreement includes annual principal and interest payments of \$72,840.

On July 1, 2012, the District entered into a lease purchase agreement for the acquisition of a Cisco Edge Networking Gear and additional servers. The capital lease obligation and corresponding equipment totaled \$384,313. The capital lease agreement includes annual principal and interest payments of \$81,862.

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

2. Capital Lease (Continued)

Assets acquired through capital lease are summarized as follows:

Phone System	\$ 455,970
Cisco Server	384,313
Less: Accumulated Depreciation	<u>(298,021)</u>
Total	<u><u>\$ 542,262</u></u>

D. Changes in Long-Term Debt

	June 30, 2012	Net Additions	Retirements	June 30, 2013
Bonds Payable	\$ 15,875,000	\$ 5,970,000	\$ 10,390,000	\$ 11,455,000
Bond Premium	598,491	73,276	145,985	525,782
Lease Purchase Obligations	242,866	384,313	133,262	493,917
Sick Leave Payable	151,405	295,497	323,463	123,439
Supplemental Pension				
Benefits Payable	71,927	135,611	181,074	26,464
Other Postemployment				
Benefits Payable	1,239,425	1,316,551	999,458	1,556,518
Compensated Absences				
Payable - Net	<u>129,131</u>	<u>237,917</u>	<u>244,340</u>	<u>122,708</u>
Total	<u><u>\$ 18,308,245</u></u>	<u><u>\$ 8,413,165</u></u>	<u><u>\$ 12,417,582</u></u>	<u><u>\$ 14,303,828</u></u>

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 RESTRICTED AND ASSIGNED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. In addition, certain portions of fund balance have been assigned by the District for use specific purposes. The following is a summary of the restricted and assigned fund balances for the governmental funds.

Restricted and Assigned fund balances at June 30, 2013 are as follows:

	Restricted	Assigned
General Fund:		
Restricted for Health and Safety	\$ (60,729)	\$ -
Restricted for Operating Capital	119,920	-
Assigned for ERRP	-	278,270
Assigned for Potential Special Education Costs	-	342,126
Assigned for Separation/Retirement Benefits	-	2,074,684
Total General Fund	59,191	2,695,080
Special Revenue Funds:		
Food Service Fund:		
Restricted for Food Service	26,270	-
Community Service Fund:		
Restricted for Community Education Programs	172,950	-
Restricted for Early Childhood and Family Education Programs	24,680	-
Restricted for School Readiness	21,907	-
Restricted for Adult Basic Education	185,290	-
Restricted for Community Service	156,108	-
Total Special Revenue Funds	587,205	-
Debt Service:		
Restricted for Debt Service	1,205,976	-
Total All Funds	<u>\$ 1,852,372</u>	<u>\$ 2,695,080</u>

A. 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 reserve generates specific future levy authority.

B. Restricted for Operating Capital

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 reserve generates specific future levy authority.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

C. Restricted for Community Education Programs

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

D. Restricted for Early Childhood and Family Education Programs

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

E. 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.

F. Restricted for Adult Basic Education

The fund balance restriction represents amounts available to fund adult basic education program.

G. Restricted for Other Purposes

Restricted for other purposes represents amounts that can be spend only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

H. Assigned for ERRP

This assignment represents resources segregated by the District for the payment of early retirement benefits.

I. Assigned for Potential Special Education Excess Cost Revenue

This assignment represents resources segregated by the District related to the payment of additional special education money from the state.

J. Assigned for Separation/Retirement Benefits

This assignment represents resources segregated by the District for the payment of retirement benefits.

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 RETIREMENT PLANS

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

A. Teacher's 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 members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA 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 9.5%, respectively, of their annual covered salary as employee contributions. The District is required to contribute the following percentages of annual covered payroll: 6.5% for Coordinated Plan members and 10.0% for Basic members.

The District contributions for the years ended June 30, 2013, 2012 and 2011 were \$1,385,484, \$1,255,546 and \$1,127,092, respectively, equal to the required contributions for each year as set by state statute.

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 RETIREMENT PLANS (CONTINUED)

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 at 60 Empire Drive #200, St. Paul, MN 55103-2088, or by calling (651) 296-7460 or 1-800-652-9026.

A. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered payroll in 2013.

The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan members. The District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$415,890, \$399,051 and \$390,405, respectively, equal to the contractually required contributions for each year as set by state statute.

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 RETIREMENT PLANS (CONTINUED)

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). All 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. The District's employer and employee contributions for the year ended June 30, 2013 were \$553,727 and \$989,862, respectively.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District provides postemployment healthcare benefits to certain eligible employees. The District provides these benefits in a single-employer defined benefit healthcare plan administered by the District. All of the postemployment benefits are based on contractual agreements with employee groups. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established an Other Postemployment Benefits Trust Fund to fund these obligations. For fiscal year 2013, the District contributed \$999,458 to the plan.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

Annual Required Contribution (ARC)	\$ 1,341,700
Interest on Net OPEB Obligation	43,380
Adjustment to ARC	<u>(68,529)</u>
Annual OPEB Cost	1,316,551
Contributions During the Year	<u>(999,458)</u>
Increase in Net OPEB Obligation	317,093
Net OPEB - Beginning of the Year	<u>1,239,425</u>
Net OPEB - End of the Year	<u><u>\$ 1,556,518</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2011	\$ 1,435,010	\$ 1,141,713	79.56%	\$ 100,832
June 30, 2012	1,445,719	1,207,126	83.50%	1,239,425
June 30, 2013	1,316,551	999,458	75.91%	1,556,518

D. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$ 1,645,940	\$ 13,789,212	\$ 12,143,272	11.94%	\$ 24,843,560	48.88%

**MONTICELLO PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. 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 multiyear 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 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, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% discount rate 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 8.0% to 5.0% after six years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a 30-year period.

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NOTE 10 SUPPLEMENTAL BENEFIT PLAN

A. Plan Description

The District provides a defined contribution supplemental pension benefit to certain eligible employees. All of the pension benefits are based on contractual agreements with employee groups. These contractual agreements do not include any specific contribution or funding requirements.

B. Funding Policy

Payments under the plan are made on a pay-as-you go basis. There are no invested plan assets accumulated for payment of future benefits. The General Fund is used for funding of all pension/retirement benefits. The employer makes all contributions.

The District's annual pension cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 27. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District net pension obligation to the plan:

Annual Required Contribution (ARC)	\$ 136,791
Interest on Net Pension Obligation	2,517
Adjustment to ARC	<u>(3,697)</u>
Annual Pension Cost	135,611
Contributions During the Year	<u>(181,074)</u>
Increase in Net Pension Obligation/ (Asset)	(45,463)
Net Pension (Asset) - Beginning of the Year	<u>71,927</u>
Net Pension Obligation - End of the Year	<u><u>\$ 26,464</u></u>

The District's annual Pension cost, the percentage of annual Pension cost contributed to the plan, and the net Pension obligation for the fiscal year, and two preceding years is as follows:

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation (Asset)
June 30, 2011	\$ 138,884	\$ 197,744	142.38%	\$ (55,632)
June 30, 2012	139,980	12,421	8.87%	71,927
June 30, 2013	135,611	181,074	133.52%	26,464

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NOTE 10 SUPPLEMENTAL BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$ -	\$ 1,472,367	\$ 1,472,367	0.00%	\$ 10,185,485	14.46%

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment. Amounts determined regarding the funded status of the plan and then 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, included as required supplementary information, presents multiyear 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

The annual required contribution for the current year was determined as part of the July 1, 2012, actuarial valuation using the projected unit actuarial cost method. The actuarial assumptions included a 3.5% discount rate, 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 and projected salary increases at 3%.

The actuarial methods and assumptions include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level dollar amount of projected payroll over a 30-year period.

**MONTICELLO PUBLIC SCHOOLS
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NOTE 11 JOINT VENTURE AGREEMENT

The District entered into a Joint Venture Agreement in February 1998 between and among eight other area independent school districts and Wright Technical Center No. 996 (WTC), a cooperative center for vocational education, to finance the acquisition and betterment of an addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leasing levy to cover its allocated portion of the lease payment based on the formula set out in the Joint Venture Agreement. Participating districts will also be apportioned operating costs and continuing capital costs for the addition based on the current cost allocation formula.

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

NOTE 12 OPERATING LEASE

In 2005, the District entered into a ground lease agreement with the Monticello Youth Hockey Association (MYHA) (tenant). The term of the lease commenced on October 1, 2006 and terminates on December 31, 2030, or until the bank debt for the arena that is to be constructed on such land, is paid in full. The ground lease is for a parcel of property on District grounds with an annual payment from the tenant of one dollar. As part of the lease agreement, the tenant agreed to specific construction deadlines related to the building of an arena and ice within the arena, to pay for utility charges and to keep the leased premises in good order, condition and repair. The District agreed to pay any taxes, assessments and other government charges during the life of the lease. Other specific arrangements are defined in the ground lease agreement. Upon termination of the lease, the tenant shall surrender, and the District shall acquire, ownership of all improvements constructed on the leased premises, at no cost to the District.

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 13 RECREATION AGREEMENT

On July 1, 2005, (with an amendment dated June 7, 2006) the District entered into a Recreation Agreement (the Agreement) with the City of Monticello and the MYHA. The purpose of the Agreement is to provide for an agreement on the operations and maintenance of the ice arena, constructed on the leased premises, as described in Note 12 – Operating Lease. As part of the Agreement, the District agrees to manage the arena. The District and MYHA agree to fund operating shortfalls equally, after MYHA advertising revenue has been depleted, with the City and District agreeing to provide funds to MYHA for a portion of the construction costs. The District has agreed to pay, on behalf of MYHA, semiannual payments sent directly to the lender to provide for total payments of sums due under the construction loan and any successor loan as and when due. The City's obligation to fund this construction loan shall be in the maximum amount of \$100,000 annually. The District contributed \$100,000 in fiscal year 2013 towards the construction loan. There was no shortfall from operations. The District's obligation to MYHA and other specific arrangements are also defined in the Agreement. The term of the Agreement, modified with Amendment No. 1, shall be from October 2006 through September 2030.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHEDULE OF FUNDING PROGRESS**

The following schedules present trend information about the amounts contributed to the Postemployment Healthcare Benefit Plan and the Supplemental Pension Plan by the District:

Schedule of Funding Progress – OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ 1,088,220	\$ 10,597,150	\$ 9,508,930	10.27%	\$ 22,249,513	42.74%
7/1/2010	1,069,366	15,176,676	14,107,310	7.05%	22,280,892	63.32%
7/1/2012	1,645,940	13,789,212	12,143,272	11.94%	24,843,560	48.88%

Schedule of Funding Progress – Supplemental Pension

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 1,572,183	\$ 1,572,183	0.00%	\$ 22,249,513	7.07%
7/1/2010	-	1,507,614	1,507,614	0.00%	11,834,667 *	12.74%
7/1/2012	-	1,472,367	1,472,367	0.00%	10,185,485	14.46%

* The participant count, from the prior actuary at July 1, 2008, included all active employees in the GASB 45 valuation. The participant count at July 1, 2010 includes only those employees that could become eligible for a GAB 27 severance benefit.

Schedule of Employer Contributions – OPEB

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,089,418	\$ 671,817	61.67%	\$ 417,601
June 30, 2010	1,083,866	793,932	73.25%	707,535
June 30, 2011	1,435,010	1,141,713	79.56%	100,832
June 30, 2012	1,445,719	1,207,126	83.50%	1,239,425
June 30, 2013	1,316,551	999,458	75.91%	1,556,518

SUPPLEMENTARY INFORMATION

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
STATEMENT OF CHANGES IN AGENCY FUND
ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2013**

	Balance July 01, 2012	Additions	Deletions	Balance June 30, 2013
ASSETS				
Cash and Investments	\$ 1,167,091	\$ 211,427	\$ 102,443	\$ 1,276,075
LIABILITIES				
Accounts Payable	\$ 1,167,091	\$ 211,427	\$ 102,443	\$ 1,276,075

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2013**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 46,180,837	\$ 46,180,836	\$ 1	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 45,775,045	\$ 45,775,044	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	\$ 642,926	\$ 642,922	\$ 4	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development	\$ -	\$ -	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (60,729)	\$ (60,729)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	<i>Restricted:</i>			
408 Cooperative Rev.	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ -	\$ -	\$ -
409 Deferred Maintenance	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
419 Encumbrances	\$ -	\$ -	\$ -	07 DEBT SERVICE			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 4,555,829	\$ 4,555,830	\$ (1)
424 Operating Capital	\$ 119,920	\$ 119,920	\$ -	Total Expenditures	\$ 5,039,644	\$ 5,039,644	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Nonspendable:</i>			
427 Disabled Accessibility	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
428 Learning & Development	\$ -	\$ -	\$ -	<i>Restricted/Reserve:</i>			
434 Area Learning Center	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Restricted:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 1,205,976	\$ 1,205,976	\$ -
441 Basic Skills	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -				
449 Safe Schools Levy	\$ -	\$ -	\$ -	08 TRUST			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	Total Revenues	\$ -	\$ -	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	422 Net Position	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -				
<i>Restricted:</i>				20 INTERNAL SERVICE			
464 Restricted Fund Balance	\$ -	\$ -	\$ -	Total Revenues	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	\$ -	\$ -	\$ -
418 Committed For Separation	\$ -	\$ -	\$ -	422 Net Position	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ -	\$ -	\$ -				
<i>Assigned:</i>				25 OPEB REVOCABLE TRUST			
462 Assigned Fund Balance	\$ 2,695,080	\$ 2,695,080	\$ -	Total Revenues	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ -	\$ -	\$ -
422 Unassigned Fund Balance	\$ 3,300,297	\$ 3,300,305	\$ (8)	422 Net Position	\$ -	\$ -	\$ -
02 FOOD SERVICE				45 OPEB IRREVOCABLE TRUST			
Total Revenues	\$ 1,768,541	\$ 1,768,540	\$ 1	Total Revenues	\$ 145,253	\$ 145,253	\$ -
Total Expenditures	\$ 1,733,824	\$ 1,733,826	\$ (2)	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				422 Net Position	\$ 1,791,193	\$ 1,791,193	\$ -
460 Nonspendable Fund Balance	\$ 22,458	\$ 22,458	\$ -				
<i>Restricted:</i>				47 OPEB DEBT SERVICE			
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	Total Revenues	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ 26,270	\$ 26,270	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
				<i>Restricted:</i>			
04 COMMUNITY SERVICE				425 Bond Refundings	\$ -	\$ -	\$ -
Total Revenues	\$ 2,647,047	\$ 2,647,046	\$ 1	464 Restricted Fund Balance	\$ -	\$ -	\$ -
Total Expenditures	\$ 2,630,465	\$ 2,630,468	\$ (3)	<i>Unassigned:</i>			
<i>Nonspendable:</i>				463 Unassigned Fund Balance	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	\$ 623	\$ 623	\$ -				
<i>Restricted/Reserve:</i>							
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 172,950	\$ 172,950	\$ -				
432 E.C.F.E.	\$ 24,680	\$ 24,680	\$ -				
444 School Readiness	\$ 21,907	\$ 21,907	\$ -				
447 Adult Basic Education	\$ 185,290	\$ 185,290	\$ -				
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
464 Restricted Fund Balance	\$ 156,108	\$ 156,108	\$ -				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				

OTHER INFORMATION

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
BOND SCHEDULES
JUNE 30, 2013
(UNAUDITED)**

\$4,555,000 G.O. Alternative Facilities Bonds Series 2007A

<u>Due Date</u>	<u>Levy Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>	<u>Deferred Tax Levy</u>
2013-2014	2012	\$ 785,000	\$ 116,100	\$ 901,100	\$ 946,155
2014-2015	2013	555,000	80,775	635,775	667,564
2015-2016	2014	1,240,000	55,800	1,295,800	1,360,590
Totals		<u>\$ 2,580,000</u>	<u>\$ 252,675</u>	<u>\$ 2,832,675</u>	<u>\$ 2,974,309</u>

\$6,960,000 G.O. School Building Refunding Bonds, Series 2010A, Issued 2/24/10

<u>Due Date</u>	<u>Levy Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>	<u>Deferred Tax Levy</u>
2013-2014	2012	\$ 1,360,000	\$ 248,200	\$ 1,608,200	\$ 1,688,610
2014-2015	2013	4,155,000	207,400	4,362,400	4,580,520
2015-2016	2014	155,000	41,200	196,200	206,010
2016-2017	2015	160,000	35,000	195,000	204,750
2017-2018	2016	165,000	28,600	193,600	203,280
2018-2019	2017	175,000	22,000	197,000	206,850
2019-2020	2018	185,000	15,000	200,000	210,000
2020-2021	2019	190,000	7,600	197,600	207,480
Totals		<u>\$ 6,545,000</u>	<u>\$ 605,000</u>	<u>\$ 7,150,000</u>	<u>\$ 7,507,500</u>

\$5,970,000 G.O. School Building Refunding Bonds, Series 2012B, Issued 8/13/12

<u>Due Date</u>	<u>Levy Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>	<u>Deferred Tax Levy</u>
2013-2014	2012	\$ 2,330,000	\$ 46,600	\$ 2,376,600	\$ 2,495,430
		<u>\$ 2,330,000</u>	<u>\$ 46,600</u>	<u>\$ 2,376,600</u>	<u>\$ 2,495,430</u>

SINGLE AUDIT AND OTHER REQUIRED REPORTS

**INDEPENDENT AUDITORS' 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. 882
Monticello Public Schools
Monticello, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 882, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 18, 2013

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

Board of Education
Independent School District No. 882
Monticello Public Schools
Monticello, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District 882's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District 882's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 18, 2013

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Minnesota Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	\$ 78,761	\$ -
Cash Assistance:			
National School Breakfast Program	10.553	56,200	-
National School Lunch Program	10.555	578,347	-
Special Milk Program for Children	10.556	574	-
Cash Assistance Subtotal		<u>635,121</u>	<u>-</u>
Total U. S. Department of Agriculture		713,882	-
U.S. DEPARTMENT OF EDUCATION			
Passed Through Minnesota Department of Education:			
Cash Assistance:			
Adult Basic Education Formula Revenue	84.002	28,215	-
Title II, Part A - Improving Teacher Quality	84.367	98,949	-
Title III, Part A	84.365	17,168	-
Cash Assistance Subtotal		<u>144,332</u>	<u>-</u>
Cash Assistance Clustered Programs:			
Special Education Cluster:			
Special Education	84.027	2,484,181	266,338
Special Education Preschool Grants	84.173	72,902	-
Early Intervention Services (IDEA) Cluster:			
Special Education Grants for Infants and Families	84.181	55,435	-
Title I, Part A Cluster:			
Title I, Part A	84.010	325,785	-
Clustered Programs Subtotal		<u>2,938,303</u>	<u>266,338</u>
Total U.S. Department of Education		<u>3,082,635</u>	<u>266,338</u>
Total Federal Awards Expended		<u>\$ 3,796,517</u>	<u>\$ 266,338</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Independent School District No. 882.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District.

Note 3:

The pass-through entity identifying number is unknown.

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 882
Monticello Public Schools
Monticello, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 882, as of June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated November 18, 2013.

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

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

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 18, 2013

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Independent School District No. 882.
2. There were no deficiencies in internal control over financial reporting that were disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of Independent School District No. 882 were disclosed during the audit.
4. One significant deficiency in internal control over compliance was disclosed during the audit of the major federal award programs. The significant deficiency is listed as finding 2013-001.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 882 expresses an unqualified opinion.
6. The programs tested as major programs included:

 Special Education Cluster:

Special Education	CFDA #84.027
Special Education Preschool Grants	CFDA #84.173

 Child Nutrition Cluster:

School Breakfast Program	CFDA #10.553
National School Lunch Program	CFDA #10.555
Special Milk Program for Children	CFDA #10.556

 Title I Cluster:

Title I, Part A	CFDA #84.010
-----------------	--------------

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Independent School District No. 882 was not determined to be a low-risk auditee.

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

None Noted

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

Finding 2013-001 – Controls over Reporting – FY 13 Title I

Criteria: Title I Personal Activity Reports (PARs) or timesheets are required to be signed by both the employee and the supervisor.

Conditions: During our testing of compliance over the time and effort requirements for the program, one of the seven timesheets tested for Title I did not have the proper employee signature.

Context: One out of seven Title I timesheets did not contain the required employee signature.

Questioned Costs: None.

Cause: Unknown.

Effect: The potential exists that unauthorized payroll expenditures could be paid out of the federal program.

Recommendation: We recommend that the District design and implement internal controls that would be sufficient to prevent or detect and correct any noncompliance that may occur.

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 require all timesheets be approved by the employee prior to submission.

Official Responsible for Ensuring CAP:

The Business Manager and the Superintendent are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date of CAP:

The corrective action plan will be implemented beginning with the audit for the year ending June 30, 2014.

Plan to Monitor Completion of CAP:

The corrective action plan will be monitored by the Director of Business Services.

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None Noted

**MONTICELLO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 882
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

E. PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT AND LEGAL COMPLIANCE

Comment Reference	Comment Title	Status	If not Corrected, Provide Planned Corrective Action or Other Explanation
2012-03	Controls over Reimbursement Requests Title I and Education	Corrected	N/A
2012-04	Section 1512 Reports - Education Jobs	Corrected	N/A
2012-05	Controls over Eligibility Child Nutrition Cluster	Corrected	N/A