

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

**GLENCOE-SILVER LAKE PUBLIC SCHOOL
INDEPENDENT SCHOOL DISTRICT NO. 2859
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INTRODUCTORY SECTION

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2012**

BOARD OF EDUCATION

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Clark Christianson	December 31, 2014	Chairperson
Jamie Alsleben	December 31, 2012	Vice Chairperson
Gary Schreifels	December 31, 2012	Treasurer
Anne Twiss	December 31, 2014	Clerk
Kevin Kuester	December 31, 2012	Director
Jason Lindeman	December 31, 2014	Director

ADMINISTRATION

Christopher Sonju	Superintendent of Schools
Michelle Sander	Business Manager
Crystal Dahlke	Assistant Business Manger
District Offices:	Independent School District No. 2859 Glencoe-Silver Lake Public Schools 1621 E. 16 th Street Glencoe, MN 55336 (320) 864-2491

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 2859, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative data has been derived from the District's 2011 financial statements and, in our report dated December 15, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

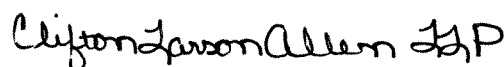
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 2859, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012 on our consideration of Independent School District No. 2859's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, and the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

This section of Glencoe-Silver Lake Public Schools – Independent School District No. 2859's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- The District has been able to maintain a positive fund balance.
- Enrollment decreased by 2.87% from 2011. Total ADM's were 1,661.
- Net assets increased 5.00% over the prior year of \$536,793.
- Total general fund expenditures surpassed revenues by \$325,927.
- Total general fund expenditures increased by \$651,969 or 4.13%.
- The fund balance in the general fund decreased to \$5,954,904 compared to \$6,272,103 at June 30, 2011.
- Restricted accounts were maintained for staff development and increased for operating capital.

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.

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

District-Wide Statements

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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 three kinds of funds:

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were \$11,275,771. This was a 5.00% increase from the prior year. (See Table A-1.)

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

	Governmental Activities		Percentage
	2012	2011	Change
Current and Other Assets	\$ 10,691,238	\$ 9,951,208	7.44%
Capital and Non-Current Assets	5,594,265	5,347,184	4.62%
Total Assets	16,285,503	15,298,392	6.45%
Current Liabilities	4,176,637	3,221,644	29.64%
Long-Term Liabilities	833,095	1,337,770	-37.73%
Total Liabilities	5,009,732	4,559,414	9.88%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	5,459,872	5,163,307	5.74%
Restricted	1,406,719	1,284,378	9.53%
Unrestricted	4,409,180	4,291,293	2.75%
Total Net Assets	\$ 11,275,771	\$ 10,738,978	5.00%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets

The District's total revenues were \$18,380,823 for the year ended June 30, 2012. Property taxes and state formula aid accounted for 69.6 percent of total revenues for the year (see Figure A-1 on the next page). The remaining 30.4 percent came from other general revenues combined with investment earnings and program revenues.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total %
	2012	2011	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,502,905	\$ 1,423,185	5.60%
Operating Grants and Contributions	3,549,886	3,784,510	-6.20%
Capital Grants and Contributions	119,736	126,198	-5.12%
<u>General Revenues</u>			
Property Taxes	2,347,269	3,079,290	-23.77%
Unrestricted State Aid	10,426,037	10,156,832	2.65%
Investment Earnings	9,155	15,807	-42.08%
Other	425,835	50,234	747.70%
Total Revenues	18,380,823	18,636,056	
Expenses			
Administration	816,489	623,163	31.02%
District Support Services	398,357	339,772	17.24%
Regular Instruction	7,986,764	7,679,694	4.00%
Vocational Education Instruction	136,446	137,233	-0.57%
Special Education Instruction	2,436,808	2,231,870	9.18%
Instructional Support Services	670,491	850,057	-21.12%
Pupil Support Services	1,534,598	1,524,853	0.64%
Sites and Buildings	2,140,394	1,654,284	29.38%
Fiscal and Other Fixed Cost Programs	61,209	59,438	2.98%
Food Service	922,421	1,003,709	-8.10%
Community Service	708,100	651,442	8.70%
Interest and Fiscal Charges on Long-Term Liabilities	31,953	100,839	-68.31%
Total Expenses	17,844,030	16,856,354	5.86%
Increase in Net Assets	536,793	1,779,702	
Beginning Net Assets	10,738,978	8,959,276	
Ending Net Assets	<u>\$ 11,275,771</u>	<u>\$ 10,738,978</u>	

The total cost of all programs and services was \$17,844,030. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net assets \$536,793 over last year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was \$17,844,030.

- Some of the cost was paid by the users of the District's programs (\$1,502,905).
- The federal and state governments subsidized certain programs with grants and contributions of \$3,669,622.
- Most of the District's costs \$12,671,503, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$2,347,269 in property taxes and \$10,426,037 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$434,990 related to investment earnings and other general revenues.

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

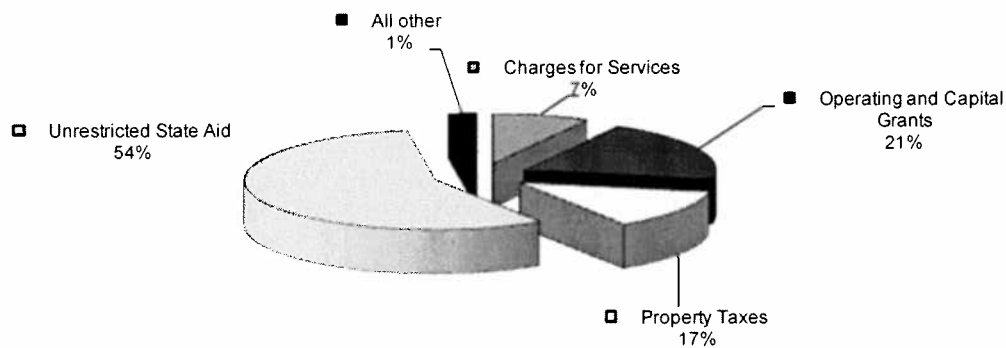
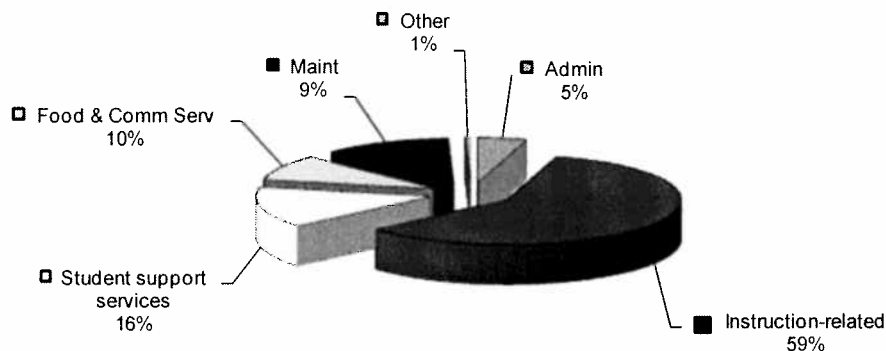


Figure A-2 District Expenses for Fiscal 2012



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2012	2011		2012	2011	
Administration	\$ 816,489	\$ 623,163	31.02%	\$ 815,391	\$ 622,536	30.98%
District Support Services	398,357	339,772	17.24%	398,357	339,772	17.24%
Regular Instruction	7,986,764	7,679,694	4.00%	5,813,647	5,292,935	9.84%
Vocational Education Instruction	136,446	137,233	-0.57%	136,446	136,926	-0.35%
Special Education Instruction	2,436,808	2,231,870	9.18%	991,566	1,048,945	-5.47%
Instructional Support Services	670,491	850,057	-21.12%	649,516	850,057	-23.59%
Pupil Support Services	1,534,598	1,524,853	0.64%	1,510,392	1,388,489	8.78%
Sites and Buildings	2,140,394	1,654,284	29.38%	2,126,516	1,621,246	31.17%
Fiscal and Other Fixed Cost Programs	61,209	59,438	2.98%	61,209	8,849	591.71%
Food Service	922,421	1,003,709	-8.10%	(31,003)	(3,979)	679.17%
Community Service	708,100	651,442	8.70%	167,513	115,846	44.60%
Interest and Fiscal Charges on Long-Term Liabilities	31,953	100,839	-68.31%	31,953	100,839	-68.31%
Total	\$ 17,844,030	\$ 16,856,354	5.86%	\$ 12,671,503	\$ 11,522,461	9.97%

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 \$6,319,778, which is slightly less than Glencoe-Silver Lake Public Schools' last year's ending fund balance of \$6,543,235.

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 operating projects.

The following graph shows the average daily membership for the last 7 years.

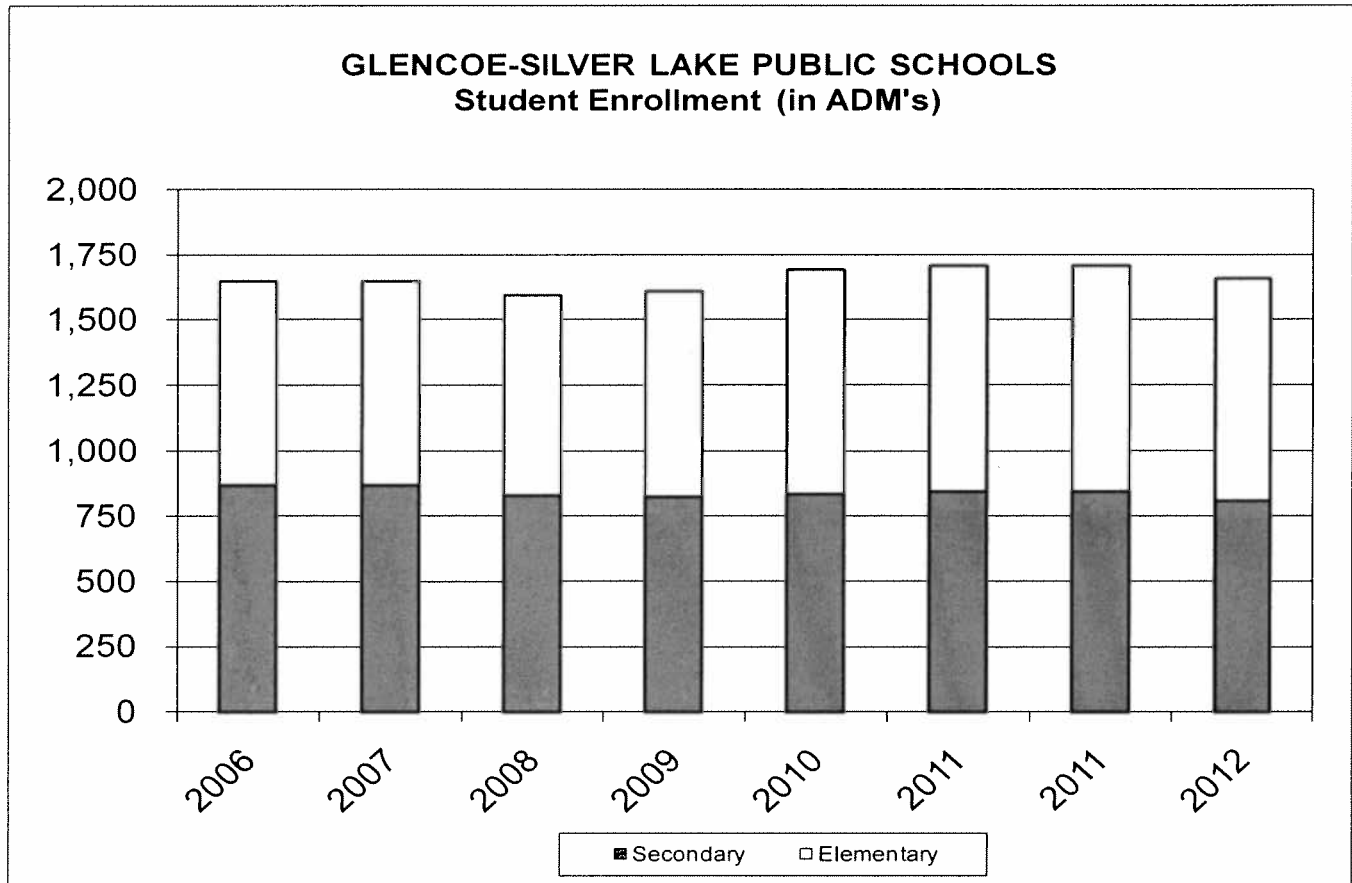
**Table A-4
Student Enrollment (Average Daily Membership)**

	2006	2007	2008	2009	2010	2011	2012
Pre-K & KH	29	28	22	30	32	30	32
Reg K	89	104	100	95	109	116	95
Elementary	624	652	640	658	718	718	724
Secondary	900	868	832	825	837	846	810
Total Students for Aid	1,642	1,652	1,594	1,608	1,696	1,710	1,661
Percent change	-2.80%	0.61%	-3.48%	0.87%	5.46%	0.83%	-2.87%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

GENERAL FUND (CONTINUED)

**Figure A-5
Student Enrollment (Average Daily Membership)**



The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2012	June 30, 2011	Increase (Decrease)	Percent
Local Sources				
Property Taxes	\$ 1,987,512	\$ 2,639,548	\$ (652,036)	-24.7%
Earnings on Investments	7,029	9,982	(2,953)	-29.6%
Other	560,891	497,992	62,899	12.6%
State Sources	12,977,219	12,293,812	683,407	5.6%
Federal Sources	561,805	865,424	(303,619)	-35.1%
Total General Fund Revenue	<u>\$ 16,094,456</u>	<u>\$ 16,306,758</u>	<u>\$ (212,302)</u>	-1.3%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

GENERAL FUND (CONTINUED)

Revenues from state and federal sources totaled \$13,539,024, a net increase of \$379,788. Total General Fund revenues decreased by \$212,302, or 1.3%, from the previous year. Property tax revenue decreased 24.7% from the prior year. The decrease is attributable to the tax shift that the State implemented in fiscal year 2011. The amount of the tax shift in 2011 was additional revenue of \$768,145 and only \$15,305 in fiscal year 2012. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and equity aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenues.

The \$683,407 increase in state sources for fiscal 2012 is attributable to various areas of state funding categories. The amount of interest earned decreased by 29.6% due to the state of the economy and investment earnings. The 12.6% (\$62,899) increase in other areas of funding was due to a decrease in donations received and a decision to move some of the student activity funds that were previously under Board control to the student activity funds that are not under Board control.

The decrease in federal funds of \$303,619 is due to the ending of the Jobs Fund Money and the Special Education Stimulus Funds.

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures
Year Ended**

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Salaries	\$ 8,545,677	\$ 8,244,743	\$ 300,934	3.7%
Employee Benefits	2,430,080	2,417,670	12,410	0.5%
Purchased Services	3,492,477	3,354,974	137,503	4.1%
Supplies and Materials	828,662	875,326	(46,664)	-5.3%
Capital Expenditures	985,850	736,066	249,784	33.9%
Other Expenditures	137,637	139,635	(1,998)	-1.4%
Total Expenditures	<u>\$ 16,420,383</u>	<u>\$ 15,768,414</u>	<u>\$ 651,969</u>	4.1%

Total General Fund expenditures increased \$651,969 or 4.1% from the previous year.

Salaries and benefits fall in line with the contract settlements and the additional staff that were hired.

The increase in capital expenditures falls in line with the building construction projects that were completed. Projects completed included a new wood performance floor in the field house and partial completion on replacement windows and doors on the Lincoln building and at the high school.

The total fund balance of the General Fund decreased to \$5,954,904 at June 30, 2012 compared to \$6,272,103 at June 30, 2011.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

GENERAL FUND (CONTINUED)

The school board and administration have worked extremely hard in monitoring the budget and controlling the spending of the school district. The fund balance policy is reviewed annually by the Business Manager, Superintendent and school board. The fund balance policy clarifies to ensure the financial strength and stability of the District. The Board will endeavor to maintain a minimum of 20% of the District's General Fund operating budget, excluding those accounts associated within the Restricted category, in the combined total of the General Fund Committed, Assigned and Unassigned fund balances.

The fund balance policy was revised in May of 2011 to account for the new GASB 54 requirements for Assigned, Committed, Nonspendable, Restricted and Unassigned Fund Balances.

The June 30, 2012 ending unassigned general fund balance of \$4,918,179 is at 30.0% of annual General Fund expenditures.

General Fund Budgetary Highlights

When budget changes are adopted by the Board they fall into one of the following categories:

- Adjusting for changes in pupil enrollment including revenue and potential staff additions.
- Adjustments for utility consumptions and costs or building repairs or maintenance.
- Implementing budgets for specially funded projects (Health and Safety), and projects which include both federal and state grants.
- Special Education

During fiscal year 2012, General Fund revenues were over budgeted levels by \$466,682. One of the biggest factors in this variance has to do with the Fund 10 Revenues that are crosswalked and included in the total general fund revenues, but no budget amounts are assigned to the fund 10 accounts.

OTHER MAJOR FUNDS

FOOD SERVICE FUND

The Food Service Fund experienced an increase of \$41,767 leaving the fund balance at \$158,367. The 2011-2012 school year was the fourth year that the food service program was outsourced to Compass Group, Inc. through its Chartwell's Food Service Division. The 2011-2012 school year was the first year of a new three contract with Chartwell's. The new contract included language for a guaranteed performance financial return. Because the specified guarantee was not met, Chartwell's returned a check at fiscal yearend for \$21,107.80 to the GSL school district.

Chartwell's has worked extremely well with the district to increase our food service offerings as well as provide a healthy menu that meets the dietary requirements and stay within the budget. The district continues to offer a free breakfast program to all K-12 students.

COMMUNITY SERVICE

The Community Service Fund fund balance increased from \$140,299 to \$175,428 at June 30, 2012. From the standpoint of maintaining current operating expenditures within the range of annual revenues, the Community Service Fund continues to operate on a sound financial basis. The Community Service Fund consists of Community Education, School Readiness, Early Childhood Family Education, Pre-School Screening and Non-Public Education. All of these programs are providing a service to varying levels of the community.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested \$5,594,265 in a broad range of capital assets, including school buildings, athletic facilities, vehicles; computer and audio-visual equipment (see Table A-7). Total depreciation expense for the year was \$386,785.

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

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Land	\$ 130,000	\$ 130,000	0.0%
Construction in Progress	317,882	-	100.0%
Land Improvements	359,463	359,463	0.0%
Buildings and Improvements	9,316,914	9,091,503	2.5%
Equipment	3,582,918	3,495,042	2.5%
Less: Accumulated Depreciation	(8,112,912)	(7,728,824)	5.0%
Total	<u><u>\$ 5,594,265</u></u>	<u><u>\$ 5,347,184</u></u>	4.6%

Long-Term Liabilities

At year end, the District had \$1,157,897 in general obligation bonds and capital leases, as shown in Table A-8. The District also had \$74,433 in severance benefits payable and \$226,957 in other post employment benefits payable at June 30, 2012. (More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.)

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

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 1,045,000	\$ 1,545,000	-32.4%
Net Bond Premium and Discount	13,990	19,236	-27.3%
Loss on Refunding	(35,486)	(47,652)	-25.5%
Obligations Under Capital Leases	134,393	183,877	-26.9%
Other Post Employment Benefits Payable	226,957	161,615	40.4%
Severance Benefits Payable	74,433	94,946	-21.6%
Total	<u><u>\$ 1,459,287</u></u>	<u><u>\$ 1,957,022</u></u>	-25.4%
Long-Term Liabilities:			
Due Within One Year	\$ 626,192	\$ 619,252	
Due in More Than One Year	833,095	1,337,770	
	<u><u>\$ 1,459,287</u></u>	<u><u>\$ 1,957,022</u></u>	

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

The long-term liabilities include the debt service account, which records the activity for the McLeod West General Obligation Taxable Reorganizational Operating Debt Bonds. Prior to the consolidation with McLeod West, the McLeod West District sold bonds in the amount of \$2,585,000 to pay off their operational debt. These bonds are payable from fiscal year 2011 through fiscal year 2015. The tax obligation for this debt is only applied to the taxes paid by the former McLeod West District residents.

Under the guidance of the Minnesota Department of Education, in March of 2011 the school board adopted a Resolution Providing for the Partial Defeasance and Payment of Certain Maturities of the General Obligation Reorganizational Operating Debt Bonds. \$614,378 was used from the excess debt obligations to establish an Escrow Account with Northland Securities. The amount established in the escrow account will be used to eliminate the 2015 debt payment and reduce the levy obligation amount for Pay 2012 and Pay 2013. This resolution was adopted by the three school boards involved with the original consolidation process. GFW, Buffalo Lake Hector Stewart and the GSL school districts.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The 2012 Omnibus K-12 Education bill made little impact to the general operation of school finance. Because this was a non-funding year, we anticipated little to no changes in the formula allowance.
 - Effective with the March 15, 2012 State Aids payment, the funding shift was changed from 60% to 64.3% of state aids payable during the current school year. The remaining 35.7% will be paid in the following fiscal year. This increase in the shift was due to a slightly improved state budget outlook for the FY2012 – FY 2013 biennium. This current payment schedule was carried forward into the FY13 school year.
 - The basic allowance was increased in 2011 by \$50 for each of the two years of the biennium. The formula allowance went from \$5,124 to \$5,174 in 2011-2012 and \$5,224 in 2012-2013.
 - The one area of new money is the Literacy Incentive Aid that will be available in the FY13 school year. The literacy incentive aid is calculated by using third grade enrollment to calculate proficiency aid and fourth grade enrollment to calculate growth aid. GSL will receive approximately \$90,000 in FY13. These dollars are not reserved or designated.
 - Effective in FY2014, the reserve account limits and aid and levy penalties for Community Education, Early Childhood Family Education and School Readiness have been repealed.
 - A change effective with the FY13 school year that will affect school districts is the elimination of the Homestead Market Value Credits which in turn decreased the Net Tax Capacity and the total Market Values of districts. The removal of the Homestead Credits changed the property values of the GSL district by 6.97%. In the past, districts levied the full amount of the levy authority. The state then gave homeowners a homestead market value credit. So, the amount of the credits was paid to districts by the State. By eliminating this credit it changes the amount of the tax rate that needs to be charged to homeowners to still be able to collect the full amount of the levies. This change does not affect referendum levies, but does affect all areas of the levy that are based on net tax capacity.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Minnesota school districts are paid based on pupil units served, a decline or increase in enrollment results in variable revenue that is received for operations. The district enrollment for 2011-2012 decreased by 2.87% at the end of the school year compared to the 2011 year end. Enrollment options continue to hurt the district. The district has a net loss of approximately 300 students.
- The 2011-2012 school year was the third year of the consolidation with the former McLeod West School District. This has impacted the district in a number of ways. The district boundary lines were extended beyond the city of Brownton to the west. This extended our transportation requirement which increased expenses. The student enrollment increased slightly. By adding an additional community to the district, it also increased the total property valuation of the district. The GSL district now encompasses 6 communities which brings with it a much diversified school district. Those communities include; Glencoe, Silver Lake, Biscay, Plato, New Auburn and Brownton.
- The Administration and School Board continue to work on a plan for a solution to the large classes and crowded classrooms in the elementary. The fall enrollment for Kindergarten class came in larger than anticipated. With no available classroom it was difficult to add a sixth section. The decision was made to hire an additional teacher to help work with students.
- Two elections were held in 2011. One in April and one in November asking the voters to approve an \$18 million dollar bond to build in between the High School and the Lincoln building, move K-3 to the new facility and close the Helen Baker building. The April election failed by 298 votes and the November election failed by 289 votes. FY 13 will be critical in moving forward with another vote or an alternative plan to accommodate students. One possibility would be to proceed with an Early Childhood Center addition to the Lincoln building and do a combination of funds between a lease levy and operating capital funds. The lease levy would allow the board to proceed with the project without voter approval and levy over a ten year period. The next few months will entail further board discussions as to when to move forward with another election.
- The November 2011 election results showed that the renewal of the operating referendum for \$727.36 per pupil unit was passed by the voters. There were 2,163 yes votes and 1,212 no votes. The passage of this operating referendum is for a period of 7 years. The renewal of the referendum was essential to maintain the current level of funding that we currently have. The successful election shows a positive statement of support from the taxpayers.
- Because of the positive fund balance in both unassigned general fund and operating capital a number of building and grounds projects have been completed. The facility committee has been active in addressing the deferred maintenance, health and safety and operating capital plans and outlining the projects to be completed. Having a positive fund balance again has proven to be a very positive reinforcement for the district, the staff and the community. Facility upgrades will continue to take place as long as the projects stay within our budget means. A number of technology upgrades have also been taking place. Computer labs have been upgraded along with additional interactive boards in more classrooms. Technology upgrades will continue to happen as 21st Century Learning continues to focus more and more towards up to date technology capabilities. During the summer of 2012, the field house gym floors in gym 1 and gym 2 were completely replaced with a wood performance floor at a cost of \$120,000. The field house was also completely painted. The board also approved the replacement of windows and doors on the Lincoln building and the north entrance doors and windows to the high school. The cost of this project was \$520,000.00

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- During the 2011-2012 school year, the State of Minnesota had applied to the Federal Department of Education for a waiver for the NCLB. (No Child Left Behind Act). This waiver would allow Minnesota to establish changes to the way the AYP status is calculated and how the individual districts would address their testing status. The waiver was approved by the Federal Government. Minnesota has now implemented a new accountability system to provide a better, fairer way to measure how schools are doing. It will also allow the Minnesota Department of Education to partner with school districts, teachers and parents on finding solutions for schools that are identified in needing the most help. The system is called the Multiple Measurement Rating system or MMR. The MMR moves away from the previous measurement which was based only on proficiency. The new MMR looks at proficiency, student growth, achievement gap and graduation rates. Schools earn points in each category resulting in the final MMR score. There are three ratings that will identify schools. Priority Schools, Focus Schools and Reward Schools. Priority Schools are those schools that are consistently low-performing schools. These schools will be required to work with MDE to develop a school turnaround plan. Focus Schools are the schools with the largest achievement gaps. Focus Schools will need to develop a school improvement plan that directly addresses poor performances. Reward Schools will be identified on being in the top 15% of their grade classification group and will be recognized publicly for their good work. The Glencoe-Silver Schools was identified as a Focus School and was therefore required to put together a School Improvement Plan. This was similar to the AYP plan that was used in the past.
- Because GSL is rated a Focus School, it has become an important factor driving the academic direction of the district. This has changed the focus of direction of administrators and teachers in evaluating detailed student data and test scores. Additional staff was hired for the 2010-2011 school year to accommodate the need for assistance with ESL (English Second Language) students. Additional paraprofessionals were also hired to assist with the Kindergarten classes to alleviate the large class sizes and to provide some assistance with core subject areas. The additional staff was kept in place for the 2011-2012 and the 2012-2013 school year. The district also hired the services of a literacy specialist in the elementary to work with teachers. New math curriculum was purchased for grades K-4 with an iPad implementation at grades 3 and 4. The iPad technology will be implemented in grades 5 and 6 in FY14. Interactive white boards have now been placed in all elementary classrooms in both Helen Baker and Lakeside. By utilizing technology, increased staffing and a rigorous curriculum, it is hoped to see GSL improve to a Reward School.
- As of October 8th, 2012, all staff in the district are under current contracts. Contract negotiations can always be a challenge in balancing salary settlements and contract language. The teacher contract negotiations proved to be extremely trying during the 2011-2012 school year as a contract was not reached and the union voted to declare work to rule. This made for a difficult half of the year until a settlement was reached. The group worked with a mediator on two different occasions with no positive results. When a settlement was reached, two (2) year contracts were negotiated. The teacher's union contracts were completed for 2011-2013 and 2013-2015.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The district continues to contract with the South West/West Central Service Cooperative – Region 4 for a number of services including finance, payroll and student assistance. The district also utilizes the Little Crow Special Education division of the Coop for assistance in meeting our needs with special education services. The Coop also offers a Transition Program in Cosmos that our district is able to use for a limited number of students that require additional services when we are unable to meet their needs. This poses an additional transportation cost for the district but allows us to be in compliance with state and federal regulations regarding the individual learning plans for students. With all the changes in Special Education, including the state wide tuition billing, this continues to be a difficult area to monitor in the budget. The Coop continues to be a great resource for the district to be able to be a part of to assist in all of these areas of budget and financing.
- Glencoe-Silver Lake Public Schools is a very stable district with strong community support. The District provides a full range of public education services for Pre-school through grade 12. Food service and transportation are provided as supporting programs. The district's community education program includes early childhood, school readiness along with adult learning opportunities. The public school also provides some shared time services for the non-public schools in the district. There is currently a K-9 Lutheran School in Glencoe and a K-6 Catholic School in Glencoe. The Catholic School in Silver Lake was closed as of June 30, 2011. With the consolidation process complete, Glencoe-Silver Lake now serves the communities of Glencoe, Silver Lake, Plato, New Auburn, Biscay, and Brownton.
- The Glencoe-Silver Lake School is excited about the potential growth that the district could see in the upcoming years. By pursuing a potential building project shows that the district is ready to move forward with the support of the community and the families that attend school here. By focusing on academic achievement and tests scores the school board is committed in improving student successes and involvement and making sure the district strives towards our goals outlined in the school improvement plan.

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 contact the District Office, Independent School District No. 2859, 1621 East 16th Street, Glencoe, MN 55336.

BASIC FINANCIAL STATEMENTS

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GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011)

	Governmental Activities	
	2012	2011
ASSETS		
Cash and Investments	\$ 4,727,345	\$ 4,532,990
Receivables		
Property Taxes	1,240,006	1,231,020
Other Governments	4,646,829	4,144,164
Other	43,084	18,272
Prepaid Items	3,080	3,052
Inventories	30,894	21,710
Capital Assets		
Land and Construction in Progress	447,882	130,000
Other Capital Assets, Net of Depreciation	5,146,383	5,217,184
Total Assets	<u>16,285,503</u>	<u>15,298,392</u>
LIABILITIES		
Salaries and Compensated Absences Payable	1,125,501	1,092,075
Accounts and Contracts Payable	1,072,763	138,408
Accrued Interest	25,887	32,626
Due to Other Governmental Units	105	3,964
Deferred Revenue		
Property Taxes	1,304,313	1,309,014
Local Sources	21,876	26,305
Long-Term Liabilities		
Portion Due Within One Year	626,192	619,252
Portion Due in More Than One Year	833,095	1,337,770
Total Liabilities	<u>5,009,732</u>	<u>4,559,414</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	5,459,872	5,163,307
Restricted for		
General Fund Operating Capital Purposes	953,525	920,754
General Fund State-Mandated Restrictions	117,440	106,725
Food Service	158,367	116,600
Community Service	177,387	140,299
Unrestricted	<u>4,409,180</u>	<u>4,291,293</u>
Total Net Assets	<u><u>\$ 11,275,771</u></u>	<u><u>\$ 10,738,978</u></u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

2012

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 816,489	\$ 714	\$ -
District Support Services	398,357	-	-
Regular Instruction	7,986,764	505,635	1,556,483
Vocational Education Instruction	136,446	-	-
Special Education Instruction	2,436,808	67,922	1,377,320
Instructional Support Services	670,491	-	20,975
Pupil Support Services	1,534,598	-	24,206
Sites and Buildings	2,140,394	5,525	-
Fiscal and Other Fixed Cost Programs	61,209	-	-
Food Service	922,421	503,463	449,961
Community Service	708,100	419,646	120,941
Interest and Fiscal Charges on Long-Term Liabilities	31,953	-	-
Total School District	<u>\$ 17,844,030</u>	<u>\$ 1,502,905</u>	<u>\$ 3,549,886</u>

General Revenues

Property Taxes Levied for
General Purposes
Community Service
Debt Service
State Aid Not Restricted to Specific Purposes
Earnings on Investments
Miscellaneous
Total General Revenues

Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

		2011
	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ 384	\$ (815,391)	\$ (622,536)
-	(398,357)	(339,772)
110,999	(5,813,647)	(5,292,935)
-	(136,446)	(136,926)
-	(991,566)	(1,048,945)
-	(649,516)	(850,057)
-	(1,510,392)	(1,388,489)
8,353	(2,126,516)	(1,621,246)
-	(61,209)	(8,849)
-	31,003	3,979
-	(167,513)	(115,846)
-	(31,953)	(100,839)
<u>\$ 119,736</u>	<u>(12,671,503)</u>	<u>(11,522,461)</u>

1,992,332	2,652,957
148,092	223,293
206,845	203,040
10,426,037	10,156,832
9,155	15,807
425,835	50,234
<u>13,208,296</u>	<u>13,302,163</u>
536,793	1,779,702
<u>10,738,978</u>	<u>8,959,276</u>
<u>\$ 11,275,771</u>	<u>\$ 10,738,978</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2011)**

		Major	
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 3,529,754	\$ 142,310	\$ 121,147
Receivables			
Current Property Taxes	1,005,312	-	82,744
Delinquent Property Taxes	39,629	-	1,959
Due from Other Minnesota School Districts	-	-	-
Due from Minnesota Department of Education	4,466,966	-	47,450
Due from Federal through Minnesota Department of Education	116,637	-	-
Due from Other Governmental Units	8,630	-	-
Other Receivables	4,436	21,108	17,540
Prepaid Items	3,038	-	42
Inventory	11,757	19,137	-
Total Assets	<u>\$ 9,186,159</u>	<u>\$ 182,555</u>	<u>\$ 270,882</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Compensated Absences Payable	\$ 597,632	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	527,869	-	-
Accounts and Contracts Payable	1,049,521	12,312	10,930
Due to Other Governmental Units	105	-	-
Deferred Revenue			
Property Taxes Levied for Subsequent Year	1,006,499	-	82,565
Delinquent Property Taxes	39,629	-	1,959
Local Sources	10,000	11,876	-
Total Liabilities	<u>3,231,255</u>	<u>24,188</u>	<u>95,454</u>
Fund Balance			
Nonspendable			
Prepaid Items	3,038	-	42
Inventory	11,757	19,137	-
Restricted for			
Staff Development	90,517	-	-
Deferred Maintenance	1,126	-	-
Health and Safety	(91,610)	-	-
Operating Capital	953,525	-	-
Safe Schools - Crime Levy	25,797	-	-
Community Education Programs	-	-	118,357
Early Childhood and Family Education Programs	-	-	7,680
School Readiness	-	-	22,810
Adult Basic Education	-	-	-
Other Purposes	-	139,230	26,539
Assigned			
School Purposes	42,575	-	-
Unassigned	4,918,179	-	-
Total Fund Balance	<u>5,954,904</u>	<u>158,367</u>	<u>175,428</u>
Total Liabilities and Fund Balance	<u>\$ 9,186,159</u>	<u>\$ 182,555</u>	<u>\$ 270,882</u>

See accompanying Notes to Basic Financial Statements.

Funds	Total	
	Governmental Funds	
Debt Service	2012	2011
\$ 130,507	\$ 3,923,718	\$ 3,730,688
108,675	1,196,731	1,195,115
1,687	43,275	35,905
-	-	32,743
7,146	4,521,562	3,990,834
-	116,637	120,587
-	8,630	-
-	43,084	18,272
-	3,080	3,052
-	30,894	21,710
<u>\$ 248,015</u>	<u>\$ 9,887,611</u>	<u>\$ 9,148,906</u>
\$ -	\$ 597,632	\$ 581,144
-	527,869	510,931
-	1,072,763	138,408
-	105	3,964
215,249	1,304,313	1,309,014
1,687	43,275	35,905
-	21,876	26,305
<u>216,936</u>	<u>3,567,833</u>	<u>2,605,671</u>
-	3,080	3,052
-	30,894	21,710
-	90,517	92,907
-	1,126	13,818
-	(91,610)	(59,458)
-	953,525	920,754
-	25,797	-
-	118,357	88,882
-	7,680	4,904
-	22,810	20,001
-	-	1
31,079	196,848	142,634
-	42,575	45,913
-	4,918,179	5,248,117
<u>31,079</u>	<u>6,319,778</u>	<u>6,543,235</u>
<u>\$ 248,015</u>	<u>\$ 9,887,611</u>	<u>\$ 9,148,906</u>

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET ASSETS GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
Total Fund Balance for Governmental Funds	\$ 6,319,778	\$ 6,543,235
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	130,000	130,000
Construction in Progress	317,882	-
Land Improvements, Net of Accumulated Depreciation	285,406	303,158
Buildings and Improvements, Net of Accumulated Depreciation	3,801,966	3,744,048
Equipment, Net of Accumulated Depreciation	1,059,011	1,169,978
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.		
	43,275	35,905
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(25,887)	(32,626)
Internal service funds are used by management to accumulate resources for payments of future other post employment benefits. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets at year-end are:		
	803,627	802,302
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(1,045,000)	(1,545,000)
Unamortized Premiums	(13,990)	(19,236)
Deferred Loss on Refunding	35,486	47,652
Obligations Under Capital Leases	(134,393)	(183,877)
Severance Benefits Payable	(74,433)	(94,946)
Other Post Employment Benefits Payable	(226,957)	(161,615)
Total Net Assets of Governmental Activities	<u>\$ 11,275,771</u>	<u>\$ 10,738,978</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 1,987,512	\$ -	\$ 147,229
Earnings on Investments	7,029	218	146
Other	560,891	503,465	479,491
State Sources	12,977,219	54,449	130,228
Federal Sources	561,805	395,512	855
Total Revenues	<u>16,094,456</u>	<u>953,644</u>	<u>757,949</u>
EXPENDITURES			
Current			
Administration	813,114	-	-
District Support Services	377,099	-	-
Regular Instruction	7,781,304	-	-
Vocational Education Instruction	135,187	-	-
Special Education Instruction	2,419,718	-	-
Instructional Support Services	487,281	-	-
Pupil Support Services	1,524,941	-	-
Sites and Buildings	1,781,788	-	-
Fiscal and Other Fixed Cost Programs	61,209	-	-
Food Service	-	906,011	-
Community Service	-	-	705,334
Capital Outlay	985,850	5,866	17,486
Debt Service			
Principal	49,484	-	-
Interest and Fiscal Charges	3,408	-	-
Total Expenditures	<u>16,420,383</u>	<u>911,877</u>	<u>722,820</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(325,927)	41,767	35,129
OTHER FINANCING SOURCES			
Sale of Equipment Proceeds	25	-	-
Judgments for School Districts	8,703	-	-
Total Other Financing Sources	<u>8,728</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(317,199)	41,767	35,129
Fund Balance - Beginning	6,272,103	116,600	140,299
Fund Balance - Ending	<u>\$ 5,954,904</u>	<u>\$ 158,367</u>	<u>\$ 175,428</u>

See accompanying Notes to Basic Financial Statements.

Funds	Governmental	
	Funds	
Debt Service	2012	2011
\$ 205,158	\$ 2,339,899	\$ 3,066,283
437	7,830	13,505
331,764	1,875,611	1,823,631
20,017	13,181,913	12,432,859
-	958,172	1,284,125
557,376	18,363,425	18,620,403
-	813,114	786,727
-	377,099	349,070
-	7,781,304	7,605,411
-	135,187	145,879
-	2,419,718	2,288,348
-	487,281	604,161
-	1,524,941	1,528,578
-	1,781,788	1,645,224
-	61,209	59,438
-	906,011	974,984
-	705,334	668,752
-	1,009,202	787,332
500,000	549,484	1,054,954
40,530	43,938	131,415
540,530	18,595,610	18,630,273
16,846	(232,185)	(9,870)
-	25	9,390
-	8,703	344
-	8,728	9,734
16,846	(223,457)	(136)
14,233	6,543,235	6,543,371
\$ 31,079	\$ 6,319,778	\$ 6,543,235

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
Net Change in Fund Balance-Total Governmental Funds	\$ (223,457)	\$ (136)
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 with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	635,511	496,716
Loss on Disposal of Capital Assets	(1,620)	(11,108)
Proceeds from sales of capital assets	(25)	(9,390)
Depreciation Expense	(386,785)	(370,577)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.		
Principal Payments - Capital Leases	49,484	45,108
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Loss on Refunding	-	47,652
Amortization of Loss on Refunding	(12,166)	-
Repayment of Bond Principal	500,000	1,040,000
Change in Accrued Interest Expense - General Obligation Bonds	6,739	(17,013)
Amortization of Bond Premium	5,246	5,246
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.		
	7,370	13,007
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).		
	(44,829)	537,895
Internal service funds are used by the District to accumulate resources for payment of future other post employment benefits. The net revenue of the internal service funds is reported with governmental activities.		
	1,325	2,302
Change in Net Assets of Governmental Activities	<u>\$ 536,793</u>	<u>\$ 1,779,702</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources				
Property Taxes	\$ 1,954,201	\$ 1,881,428	\$ 1,987,512	\$ 106,084
Earnings on Investments	10,000	8,000	7,029	(971)
Other	279,200	279,200	560,891	281,691
State Sources	12,610,288	12,903,481	12,977,219	73,738
Federal Sources	463,475	555,665	561,805	6,140
Total Revenues	15,317,164	15,627,774	16,094,456	466,682
EXPENDITURES				
Current				
Administration	1,375,469	881,966	813,114	(68,852)
District Support Services	446,426	462,082	377,099	(84,983)
Elementary and Secondary				
Regular Instruction	7,279,204	7,542,256	7,781,304	239,048
Vocational Education Instruction	136,974	141,367	135,187	(6,180)
Special Education Instruction	2,431,746	2,595,174	2,419,718	(175,456)
Instructional Support Services	587,219	513,633	487,281	(26,352)
Pupil Support Services	1,651,389	1,636,954	1,524,941	(112,013)
Sites and Buildings	1,608,725	1,627,445	1,781,788	154,343
Fiscal and Other Fixed Cost Programs	128,500	118,500	61,209	(57,291)
Capital Outlay	485,200	910,200	985,850	75,650
Debt Service				
Principal	10,038	10,038	49,484	39,446
Interest and Fiscal Charges	1,333	1,333	3,408	2,075
Total Expenditures	16,142,223	16,440,948	16,420,383	(20,565)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(825,059)	(813,174)	(325,927)	487,247
OTHER FINANCING SOURCES				
Sale of Equipment Proceeds	-	-	25	25
Judgments for School Districts	2,000	-	8,703	8,703
Total Other Financing Sources	2,000	-	8,728	8,728
Net Change in Fund Balance	\$ (823,059)	\$ (813,174)	(317,199)	\$ 495,975
FUND BALANCE				
Beginning of Year			6,272,103	
End of Year			\$ 5,954,904	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2012**

	<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				
Earnings on Investments	\$ -	\$ -	\$ 218	\$ 218
Other - Primarily Meal Sales	535,249	535,249	503,465	(31,784)
State Sources	62,216	62,216	54,449	(7,767)
Federal Sources	438,392	438,392	395,512	(42,880)
Total Revenues	<u>1,035,857</u>	<u>1,035,857</u>	<u>953,644</u>	<u>(82,213)</u>
EXPENDITURES				
Current				
Food Service	948,290	948,290	906,011	(42,279)
Capital Outlay	1,434	1,434	5,866	4,432
Total Expenditures	<u>949,724</u>	<u>949,724</u>	<u>911,877</u>	<u>(37,847)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ 86,133</u>	<u>\$ 86,133</u>	41,767	<u>\$ (44,366)</u>
FUND BALANCE				
Beginning of Year			<u>116,600</u>	
End of Year			<u>\$ 158,367</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
JUNE 30, 2012**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources				
Property Taxes	\$ 168,591	\$ 168,591	\$ 147,229	\$ (21,362)
Earnings on Investments	-	-	146	146
Other - Primarily Tuition and Fees	417,190	417,190	479,491	62,301
State Sources	122,327	122,327	130,228	7,901
Federal Sources	300	300	855	555
Total Revenues	<u>708,408</u>	<u>708,408</u>	<u>757,949</u>	<u>49,541</u>
EXPENDITURES				
Current				
Community Service	700,884	711,900	705,334	(6,566)
Capital Outlay	35,400	35,400	17,486	(17,914)
Total Expenditures	<u>736,284</u>	<u>747,300</u>	<u>722,820</u>	<u>(24,480)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (27,876)</u>	<u>\$ (38,892)</u>	35,129	<u>\$ 74,021</u>
FUND BALANCE				
Beginning of Year			<u>140,299</u>	
End of Year			<u>\$ 175,428</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	Governmental Activities - Internal Service Funds 2012
ASSETS	
Current Assets	
Cash and Investments	\$ 803,627
Total Assets	<u>\$ 803,627</u>
NET ASSETS	
Unrestricted	\$ 803,627
Total Net Assets	<u>\$ 803,627</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	Governmental Activities - Internal Service Funds 2012
NONOPERATING INCOME	
Transfer In	-
Earnings on Investments	\$ 1,325
Total Nonoperating Income	<u>1,325</u>
Income (Loss) Before Transfers	1,325
Change in Net Assets	1,325
Total Net Assets - Beginning	<u>802,302</u>
Total Net Assets - Ending	<u>\$ 803,627</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
JUNE 30, 2012**

	Governmental Activities - Internal Service Funds
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	\$ 1,325
Net Cash Provided by Investing Activities	<hr/> 1,325
Net Increase in Cash and Cash Equivalents	1,325
Cash and Cash Equivalents - Beginning	<hr/> 802,302
Cash and Cash Equivalents - Ending	<hr/> <hr/> \$ 803,627
Displayed on Combining Statement of Net Assets as:	
Cash and Investments	<hr/> <hr/> \$ 803,627

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 985,056
Interest Receivable	861
Total Assets	<u>\$ 985,917</u>
NET ASSETS	
Restricted for Scholarships	\$ 985,917
Total Net Assets	<u>\$ 985,917</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 1,200
Earnings on Investments	2,585
Total Additions	<u>3,785</u>
DEDUCTIONS	
Scholarships Awarded	16,700
Total Deductions	<u>16,700</u>
Change in Net Assets	(12,915)
Net Assets - Beginning of Year	<u>998,832</u>
Net Assets - End of Year	<u>\$ 985,917</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2859 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 2859 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally 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. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

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

C. Basic Financial Statement Presentation

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal users of internal service fund are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for accumulating resources for future payments of other post employment benefits. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the same option of following subsequent private-sector guidance for the proprietary funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report 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 come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligations bond principal, interest and related costs associated with the McLeod West debt issue.

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accumulates resources for the future payment of other post employment benefits.

Fiduciary Fund

Private Purpose Trust Fund

The Private Purpose Trust Fund is used to account for money held by the District in the capacity of trustee or custodian, where both the principal and interest may be spent.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the original budget as adopted by the Board of Education. 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 of Education 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 of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

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

F. Cash and Investments

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

G. Accounts Receivable

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

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of wood shop supplies and paper in the General Fund and purchased food, supplies, and surplus commodities received from the federal government within the Food Service Fund. 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes

Property tax levies are established by the Board of Education 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.

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, which is frozen at \$168,353 for the District. Starting in fiscal year 2011, the tax shift was expanded to include all other general and community service fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. For 2012 this resulted in a increase in the District's General Fund (and corresponding decrease in state aid totaling \$15,305) and an decrease in the District's Community Service Fund (and corresponding increase in state aid totaling \$3,791). Certain other portions of the District's 2011 pay 2012 levy, normally revenue for the 2012-13 fiscal year, are also advance recognized at June 30, 2012, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2012, are included in 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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 \$2,500 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 District-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. Material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

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

Since vacation pay does not vest to employees, no long-term portion of vacation liabilities are recorded in the financial statements.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Severance and Health Benefits

Severance consist of lump sum early retirement incentive payments. Accounting policies for severance benefits are described below.

a. Early Retirement Incentive and Convertible Sick Leave

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

Full-time employees, other than teachers, who have completed at least 15 years of continuous service with the District and who are at least 55 years of age are eligible for severance pay. Eligible employees, upon early retirement, receive as severance pay, an amount representing 66% of their unused accumulation of sick leave days.

During fiscal year 2012, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$0. At June 30, 2012, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

b. Other Postemployment Benefits Payable

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay \$200 per month toward the premium cost of the individual health insurance for 96 months. The employee pays the difference toward the full premium for any coverage elected. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

N. Deferred Revenue

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for property taxes levied for the subsequent years, delinquent property taxes, unearned for fiscal agent services, and for student account balances available for future meals in the Food Service Fund.

O. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Finance Committee and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Balance (Continued)

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

The District has a minimum fund balance policy, which identifies a minimum total of committed, assigned and unassigned fund balance in the General Fund as 20% of the District's operating budgeted expenditures.

P. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers demand deposit accounts and investments to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

Q. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and workers compensation. 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. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

R. Net Assets

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

S. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

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

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

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

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

B. Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies.
- shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- general obligations rated "A" or better; revenue obligations rated "AA" or better
- general obligations of the Minnesota Housing Finance Agency 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

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

Deposits	\$ 5,712,123
Cash on Hand	278
Total Pooled Cash and Investments	<u>\$ 5,712,401</u>
 Cash and Investments - Statement of Net Assets	 \$ 4,727,345
Cash and Investments - Statement of Fiduciary Net Assets	985,056
Total Cash and Investments	<u>\$ 5,712,401</u>

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in Progress	-	317,882	-	317,882
Total Capital Assets, Not Being Depreciated	130,000	317,882	-	447,882
Capital Assets, Being Depreciated				
Land Improvements	359,463	-	-	359,463
Buildings and Improvements	9,091,503	225,411	-	9,316,914
Equipment	3,495,042	92,218	(4,342)	3,582,918
Total Capital Assets, Being Depreciated	12,946,008	317,629	(4,342)	13,259,295
Accumulated Depreciation for				
Land Improvements	(56,305)	(17,752)	-	(74,057)
Buildings and Improvements	(5,347,455)	(167,493)	-	(5,514,948)
Equipment	(2,325,064)	(201,540)	2,697	(2,523,907)
Total Accumulated Depreciation	(7,728,824)	(386,785)	2,697	(8,112,912)
Total Capital Assets, Being Depreciated, Net	5,217,184	(69,156)	(1,645)	5,146,383
Governmental Activities Capital Assets, Net	<u>\$ 5,347,184</u>	<u>\$ 248,726</u>	<u>\$ (1,645)</u>	<u>\$ 5,594,265</u>

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

Governmental Activities

Administration	\$ 13,427
Elementary and Secondary Regular Instruction	314,689
Special Education Instruction	1,449
Instructional Support Services	7,135
Pupil Support Services	12,602
Sites and Buildings	20,856
Food Service	10,544
Community Service	6,083
Total Depreciation Expense, Governmental Activities	<u>\$ 386,785</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2012:

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
6/17/2009	2.0% - 3.35%	\$ 2,585,000	2/1/2015	\$ 520,000	\$ 1,045,000
Total General Obligation Bonds				520,000	1,045,000
Bond Premium - net				-	13,990
Capital Leases Payable				54,358	134,393
Loss on Refunding				(12,166)	(35,486)
Other Postemployment Benefits Payable				-	226,957
Severance Benefits Payable				64,000	74,433
				<u>\$ 626,192</u>	<u>\$ 1,459,287</u>

B. Future Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including capital leases, compensated absences payable, other postemployment benefits payable, and severance benefits payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2013	\$ 520,000	\$ 48,255
2014	525,000	34,475
	<u>\$ 1,045,000</u>	<u>\$ 82,730</u>

C. Description of Long-Term Liabilities

General Obligation Taxable Reorganization Bonds

On July 1, 2009, the District acquired debt of \$2,585,000 of General Obligation Taxable Reorganization Bonds. The bonds were issued on June 1, 2009 by McLeod West to help fund the reorganization of the District. Payments of the debt will be made by Glencoe-Silver Lake Public Schools, Gibbon-Fairfax-Winthrop Public Schools and Buffalo Lake-Hector Public schools.

On April 1, 2011, the District placed the unexpended proceeds of the General Obligation Taxable Reorganization Bonds in an irrevocable escrow account. The account is to be used to pay \$10,000 in principal of the 2014 and all of bonds maturing in 2015, which is \$550,000, related to the General Obligation Taxable Reorganization Bonds. This transaction resulted in an in substance defeasance, and accordingly the escrow account and related debt are not reported in the District's financial statements. This resulted in a loss on refunding of \$47,652.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Leases Payable

Capital leases are utilized by the District as a means to finance the Facility projects that are too small for issuing bonds and too large for the operating capital funds to cover the costs. These projects over the years have included modifications to the fieldhouse, equipment for the fieldhouse, technology throughout the district, stadium lights, and improvements to the Helen Baker Elementary. Total cost of assets held under capital leases is \$330,314. Related accumulated depreciation of assets under capital leases at June 30, 2012 is \$204,495.

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

Year Ending June 30,	
2013	\$ 65,642
2014	65,642
2015	<u>21,102</u>
Total Minimum Lease Payments	152,386
Less Amounts Representing Interest	<u>17,993</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 134,393</u></u>

Severance Benefits Payable

Severance benefits payable consist of convertible sick leave payable to employees upon retirement. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

D. Changes in Long-Term Liabilities

	June 30, 2011	Additions	Retirements	June 30, 2012
Bonds Payable	\$ 1,545,000	\$ -	\$ 500,000	\$ 1,045,000
Bond Premium	19,236	-	5,246	13,990
Loss on Refunding	(47,652)	-	(12,166)	(35,486)
Lease Purchase Obligations	183,877	-	49,484	134,393
Other Postemployment Benefits Payable	161,615	148,724	83,382	226,957
Severance Benefits Payable	<u>94,946</u>	<u>84,381</u>	<u>104,894</u>	<u>74,433</u>
	<u><u>\$ 1,957,022</u></u>	<u><u>\$ 233,105</u></u>	<u><u>\$ 730,840</u></u>	<u><u>\$ 1,459,287</u></u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 RESTRICTED/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. The assigned fund balances are resources constrained with the intent to be used for a specific purpose. The following is a summary of the restricted and assigned fund balances for the governmental funds:

A. Restricted for Staff Development

This fund balance restriction represents accumulated general education aid resources available to provide staff development programming.

B. Restricted for Deferred Maintenance

This fund balance restriction represents accumulated resources available to provide maintenance on buildings with funding made available for that purpose.

C. Restricted for Health and Safety

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

D. Restricted for Operating Capital

Restricted for operating capital represents available resources to be used only for operating capital purposes, including but not limited to the purchase, lease, repair and improvement of school buildings, and the purchase or lease of computers, vehicles, textbooks, and telecommunications equipment.

E. Restricted for Safe Schools – Crime Levy

The fund balance restriction represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

F. Restricted for Community Education Programs

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

G. Restricted for Early Childhood and Family Education Programs

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

H. 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 RESTRICTED/ASSIGEND FUND BALANCES (CONTINUED)

I. Restricted for Adult Basic Education

The fund balance restriction represents accumulated resources available to provide services for adult basic education.

J. Restricted for Other Purposes

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

K. Assigned for School Purposes

The fund balance is assignment represents accumulated resources for the McLeod West unemployment.

NOTE 6 PENSION 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 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 State of Minnesota 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 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 death and disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute and vest after three years of credited service. 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 Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St Paul MN 55103-1855 or by calling (651) 296-6449 or (800) 657-3853.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 PENSIONS PLANS (CONTINUED)

A. Teacher's Retirement Association (TRA) (Continued)

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 6.0% for Coordinated Plan members and 10.0% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$402,218, \$362,179 and \$355,908, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. The report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive Suite 200, St. Paul, MN 55103-2088, or by calling (651) 296-7460 or (800) 652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 PENSION PLANS (CONTINUED)

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

2. Funding Policy (Continued)

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2012, 2011, and 2010, were \$124,611, \$118,464 and \$100,270, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2012, 2011 and 2010 are \$111,168, \$107,900 and \$105,548, respectively. The related employee contributions were \$223,629, \$246,054 and \$245,122 for the years ended June 30, 2012, 2011 and 2010, respectively.

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 192 active participants and 13 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes \$150 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2012, the District contributed \$76,482 to the plan.

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 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 thirty years.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

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	\$ 144,425
Interest on Net OPEB Obligation	7,273
Adjustment to Annual Required Contribution	<u>(9,874)</u>
Annual OPEB Cost (Expense)	141,824
Contributions Made	<u>(76,482)</u>
Increase in Net OPEB Obligation	65,342
Net OPEB Obligation - Beginning of Year	161,615
Net OPEB Obligation - End of Year	<u><u>\$ 226,957</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 2012:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 141,824	53.9%	\$ 226,957
6/30/2011	\$ 142,823	58.4%	\$ 161,615
6/30/2010	\$ 152,545	75.7%	\$ 102,174

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,234,921. The annual payroll for active employees covered by the plan in the actuarial valuation was \$7,306,964 for a ratio of UAAL to covered payroll of 16.9%.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.5%, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2012 doesn't exceed 30 years.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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

NOTE 9 JOINTLY GOVERNED ORGANIZATION

Independent School District No. 2859 is a member of the Little Crow Special Education Cooperative. The Little Crow Special Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by 13 separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mention revenue sources.

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REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ -	\$ 1,234,921	\$ 1,234,921	0.0%	\$ 7,306,964	16.9%
7/1/2007	\$ -	\$ 1,349,866	\$ 1,349,866	0.0%	\$ 6,249,711	21.6%

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund and other aggregate remaining fund information of Independent School District No. 2859 as of and for the year ended June 30, 2012, which collectively comprise Independent School District No. 2859's basic financial statements and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 2859's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying Schedule of Findings and Questioned Costs listed as item 2012-1 and 2012-2 to be a material weakness

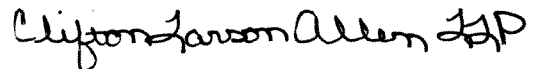
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2859's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted additional matters that we reported to management of Independent School District No. 2859 in a separate letter dated November 19, 2012.

Independent School District No. 2859's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Clifton Larson Allen" followed by a stylized "LPA" monogram.

CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

**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. 2859
Glencoe, Minnesota

Compliance

We have audited the compliance of the Independent School District No. 2859 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Independent School District No. 2859's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 2859's management. Our responsibility is to express an opinion on Independent School District No. 2859's compliance based on our audit.

We conducted our audits 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 Independent School District No. 2859'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. Our audit does not provide a legal determination on Independent School District No. 2859's compliance with those requirements.

In our opinion, Independent School District No. 2859 complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with Circular A-133, which is described in the accompanying Schedule of Findings and Questioned Costs as item listed as 2012-4.

Internal Control Over Compliance

The management of Independent School District No. 2859 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 2859's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls 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 Independent School District No. 2859's internal control over compliance.

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

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 control 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs which are listed as item 2012-3 and 2012-4 to be material weaknesses.

Independent School District No. 2859's responses to the findings identified in our audit are described on the accompanying Schedule of Findings and Questioned Costs. We did not audit Independent School District No. 2859's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management of Independent School District No. 2859, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.


CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of			
Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-2589-000	\$ 49,387
Total Non-Cash Assistance			\$ 49,387
Cash Assistance:			
School Breakfast Program	# 10.553	1-2589-000	67,824
National School Lunch Program	# 10.555	1-2589-000	272,786
National School Lunch Program - Commodity Cash Rebate	# 10.555	1-2589-000	4,539
After School Snack Program	# 10.555	1-2589-000	855
Special Milk Program for Children	# 10.556	1-2589-000	976
Total Cash Assistance			346,980
Total US Department of Agriculture			396,367
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Title I, Part A	84.010	@	208,854
Title I, Part C - Migrant Education - Summer	84.011	@	91,886
Title II, Part A - Improving Teacher Quality	84.367	@	88,246
Title III - English Language Acq Grants	84.365	@	10,925
ARRA Education Jobs Fund	84.410	@	73,852
Pass-Through SW/WC Service Cooperative #991			
Cash Assistance:			
Special Education - Grants to States	& 84.027	@	83,430
Special Education - Preschool Incentive	& 84.173	@	11,068
Total Cash Assistance, US Department of Education			568,261
Total Federal Financial Assistance Expended			\$ 964,628
<p># - Child Nutrition Cluster</p> <p>& - Special Education Cluster</p> <p>@ - Unknown Agency or Pass-Through Number</p>			

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 2859. The reporting entity is defined in Note 1 to the financial statements.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Independent School District No. 2859's financial statements.

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited the financial statements of Independent School District No. 2859 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012.

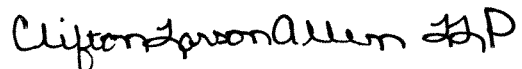
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. §6.65. Accordingly, the audit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

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

The results of our tests indicate that, with respect to the items tested, Independent School District No. 2859 complied with the material terms and conditions of applicable legal provisions, except as noted in the accompanying Schedule of Findings and Questioned Costs, which are listed as items 2012-5 and 2012-6.

Independent School District No. 2859's responses to the findings identified in our audit are described on the accompanying Schedule of Findings and Questioned Costs. We did not audit Independent School District No. 2859's responses, and accordingly, we express no opinion on them.

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


CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

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**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

PART I: SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 2859.
2. Two deficiencies in internal control over financial reporting were disclosed by the audit of the basic financial statements. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Independent School District No. 2859 were disclosed during the audit.
4. Two deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. These deficiencies are considered to be material weaknesses. These are listed as Findings 2012-3 and 2012-4.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 2859 expresses an unqualified opinion.
6. One instance of audit findings relative to the major federal award programs for Independent School District No. 2859 was disclosed during the audit. This deficiency is considered to be material weakness. This is listed as Finding 2012-4.
7. The following programs were tested as major programs:

U.S. Department of Agriculture:	
Child Nutrition Cluster :	
School Breakfast Program	CFDA #10.553
National School Lunch Program	CFDA #10.555
Special Milk Program for Children	CFDA #10.556
After School Snack Program	CFDA #10.555
U.S. Department of Education:	
Title I, Part A	CFDA #84.010
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 2859 was not determined to be a low-risk auditee.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

FINDING: 2012-1 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: The District must be able to prevent or detect the omission of a material disclosure in the annual financial statements.

Questioned Costs: None

Context: The District has informed us they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approved these prior to the issuance of the annual financial statements.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's controls.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Recommendation: The District should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2013.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:
(CONTINUED)**

FINDING: 2012-2 MATERIAL AUDIT ADJUSTMENTS

- Condition:** The District made journal entries to adjust accounts to year end balances. However, the audit firm identified certain misstatements and proposed entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria:** The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.
- Questioned Costs:** None
- Context:** The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.
- Effect:** The potential exists that the financial statements could be materially misstated and not be prevented or detected by the District's controls.
- Cause:** The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).
- Recommendation:** The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will review the prior year journal entries to determine training needs with the intent to complete all journal entries necessary to adjust accounts to their appropriate year end balances.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2013.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

**FINDING: 2012-3 TITLE I, PART A, CLUSTER – CFDA #84.010 PASS THROUGH MINNESOTA
DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER CASH MANAGEMENT**

Condition: During our testing of cash management it was noted that an independent member of management does not review and approve the reimbursement request on SERVS prior to submission.

Criteria: Internal controls require that reports be reviewed and approved by an individual independent of the report preparation.

Questioned Costs: None

Context: Not applicable

Effect: The potential exists that inaccurate data is reported and would not be prevented or detected by the District's internal controls.

Cause: The District's controls are not adequate to ensure that all required reports are submitted both timely and accurately.

Recommendation: We recommend the District implement a process to review and approve the various reports required for the federal program.

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 develop a process to review and approved reports prior to submission.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The Board of Education of Independent School District No. 2859 and administration will review the CAP as of June 30, 2012.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
(CONTINUED)**

**FINDING: 2012-4 TITLE I, PART A, CLUSTER - CFDA # 84.010 PASS THROUGH MINNESOTA
DEPARTMENT OF EDUCATION INAPPROPRIATE TIME AND EFFORT
DISTRIBUTION RECORD COMPLETION**

Condition: Two Title I employees did not complete the required Time Certifications or PARs correctly as required by OMB Circular A-87.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who are expected to work solely on a single Federal award or cost objective, complete semi-annual time certifications. In addition, paragraph 13d requires employees that do not work 100% on a single Federal cost objective to prepare a "personal activity report" or timesheet. Employee payroll should match the time and effort distribution records.

Questioned Costs: None

Context: None

Effect: The potential exists that undocumented time could be incorrectly charged to the federal program code. No known effect on the financial statements.

Cause: Misunderstanding of requirements.

Recommendation: We recommend the District utilize detailed personal activity reports that are dated at least monthly by employees and supervisors to record Federal program and non-Federal program time worked. Pay distribution should be in accordance with the PAR, or the cumulative PAR's should be reconciled annually to Federal program employee's pay distribution. Employees coded fully to a single federal cost objective should complete the appropriate time certifications.

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 immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately.

Plan to Monitor Completion of CAP:

The Board of Education and administration will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

FINDING: 2012-5 UNCLAIMED PROPERTY

Condition: The District did not turn over to the State of Minnesota outstanding checks that are greater than three years or one year for unpaid compensation.

Criteria: Minnesota Statue 345.41 requires that any unclaimed property needs to be reported and paid or delivered to the State Commissioner of Commerce.

Questioned Costs: None

Context: None

Effect: The District is not in compliance with state statute.

Cause: The District did not report the unclaimed property.

Recommendation: We recommend the District turn over to the State any unclaimed property that is in excess of three years or one year for compensation.

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 implement procedures to ensure that MN Statutes are followed.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately.

Plan to Monitor Completion of CAP:

The Board of Education of Independent School District No. 2859 and administration will review the CAP as of June 30, 2012

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE
(CONTINUED)**

FINDING: 2012-6 BID REQUIREMENTS

Condition: The District had a bid greater than \$75,000 and needed to obtain from the contractor both a performance bond and a payment bond in an amount not less than the contract price.

Criteria: Minnesota Statute §574B.26 requires that both a performance bond and a payment bond in an amount not less than the contract price be obtained.

Questioned Costs: None

Context: The District had thought the State Statute applied to bids only over \$100,000.

Effect: No effect on the financial statements.

Cause: This element of the statute was not considered in the process of awarding the contract.

Recommendation: The District should obtain a performance bond and a payment bond for any bids over \$75,000.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will obtain a performance bond and a payment bond for any bid over \$75,000.

Official Responsible for Corrective Action:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP is ongoing.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan. In its monthly approval of minutes, the board will pay particular attention to bidding activity.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2011-3	Internal Controls Over Reporting - 1512 Reports	Corrected	
2011-4	Internal Control Over Reporting - CLics	Corrected	

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2012**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenue	\$ 16,103,159	\$ 16,103,156	\$ 3	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 16,420,383	\$ 16,420,379	\$ 4	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Nonspendable:			
460 Nonspendable	\$ 14,795	\$ 14,795	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted			
403 Staff Development	\$ 90,517	\$ 90,517	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 1,126	\$ 1,126	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health and Safety	\$ (91,610)	\$ (91,610)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	Unassigned			
411 Severance Pay	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
419 Encumbrances	\$ -	\$ -	\$ -	Total Revenue	\$ 557,376	\$ 557,376	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 540,530	\$ 540,530	\$ -
424 Operating Capital	\$ 953,525	\$ 953,525	\$ -	Restricted			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
428 Learning and Development	\$ -	\$ -	\$ -	464 Other Purposes	\$ 31,079	\$ 31,079	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	Unassigned:			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -				
438 Grad Standards Gifted & Talented	\$ -	\$ -	\$ -	08 TRUST			
441 Basic Skills Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 3,785	\$ 3,785	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 16,700	\$ 16,700	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -	Unreserved:			
449 Safe Schools - Crime Levy	\$ 25,797	\$ 25,797	\$ -	422 Unassigned	\$ 985,917	\$ 985,918	\$ (1)
450 Pre-Kindergarten	\$ -	\$ -	\$ -				
451 QZAB Payments	\$ -	\$ -	\$ -	09 AGENCY			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Unreserved:			
464 Other Purposes	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Committed:							
418 Committed for Severance	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
Assigned				Total Revenue	\$ 1,325	\$ 1,325	\$ -
462 Assigned	\$ 42,575	\$ 42,575	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
422 Unassigned	\$ 4,918,179	\$ 4,918,178	\$ 1	422 Unassigned	\$ 803,627	\$ 803,626	\$ 1
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenue	\$ 953,644	\$ 953,642	\$ 2	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 911,877	\$ 911,875	\$ 2	Total Expenditures	\$ -	\$ -	\$ -
Fund Balance				Unassigned:			
Nonspendable				422 Unassigned	\$ -	\$ -	\$ -
460 Nonspendable	\$ 19,137	\$ 19,137	\$ -				
Restricted:				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 139,230	\$ 139,230	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
463 Unassigned	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenue	\$ 757,949	\$ 757,948	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 722,820	\$ 722,819	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Restricted:			
460 Nonspendable	\$ 42	\$ 42	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
Restricted				Unassigned:			
419 Encumbrances	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 118,357	\$ 118,357	\$ -				
432 E.C.F.E.	\$ 7,680	\$ 7,680	\$ -				
444 School Readiness	\$ 22,810	\$ 22,810	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 26,539	\$ 26,539	\$ -				
Unassigned							
463 Unassigned	\$ -	\$ -	\$ -				

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EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 2859 as of and for the year ended June 30, 2012. This financial statement is the responsibility of the District's extracurricular student activity accounts management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

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

As described in Note 1, this financial statement has been prepared on the cash basis of accounting, as prescribed by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's extracurricular student activity accounts for the year ended June 30, 2012, and the cash balances at that date on the basis of accounting as described in Note 1.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2012**

Funds	Balance 06/30/11	Transfers and Receipts	Transfers and Disburse- ments	Balance 06/30/12
Mock Trial	\$ 328	\$ 500	\$ -	\$ 828
High School Yearbook	(575)	2,099	1,524	-
Project Dirt	522	-	-	522
DI	268	363	477	154
Art	3,885	3,233	2,456	4,662
Band	16,527	66,475	75,025	7,977
Business Professional Association (BPA)	5,527	10,342	8,848	7,021
Close-Up	1,165	26,820	26,762	1,223
Kindergarten Entertainment	-	810	810	-
Grade 1 Entertainment	-	670	670	-
Grade 2 Entertainment	-	690	690	-
Grade 3 Entertainment	-	1,016	1,016	-
Grade 4 Entertainment	-	779	779	-
FFA	556	30,354	27,366	3,544
FCCLA	53	-	-	53
History	339	982	1,023	298
LS Art Club	-	-	-	-
Lincoln Student Council	4,231	2,899	3,108	4,022
Grade 5 Entertainment	-	1,011	1,011	-
Grade 6 Entertainment	-	700	700	-
Lincoln Yearbooks	159	1,860	1,500	519
YES Grant	500	-	-	500
HS Student Council	257	1,974	1,593	638
Interest - Admin	-	34	34	-
LS Student Council	308	1,213	592	929
DCD	189	-	127	62
Nat'l Honor Society	4,129	1,243	1,559	3,813
Schools Elem Memory Book	2,008	4,485	5,141	1,352
Class of 2012	9,818	-	9,818	-
Class of 2013	1,562	13,186	8,151	6,597
Class of 2014	-	5,923	3,482	2,441
Wetlands	257	-	-	257
Totals	<u>\$ 52,013</u>	<u>\$ 179,661</u>	<u>\$ 184,262</u>	<u>\$ 47,412</u>

See accompanying Notes Financial Statement.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2012**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the District's extracurricular student activity accounts are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2 COLLATERAL

Cash balances are held in demand accounts and in a certificate of deposit. In accordance with Minnesota statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

Minnesota statutes require that all district 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.

As of June 30, 2012, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

REPORT ON COMPLIANCE

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular student activity funds of Independent School District No. 2859 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. In our report, our opinion was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Further, the financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

The results of our tests indicate that, with respect to the items tested, the District's extracurricular student activity accounts complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Education, management, and students of Independent School District No. 2859 and the Minnesota Department of Education, and the Office of the State Auditor of Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.


CliftonLarsonAllen LLP

Austin, Minnesota
November 19, 2012

