

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2012

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
OFFICIAL DIRECTORY (Unaudited)	1
INDEPENDENT AUDITORS' REPORT	2-3
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	4-16
FINANCIAL STATEMENTS:	
District-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet – Governmental Funds	19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	22
Fiduciary Funds:	
Statement of Fiduciary Net Assets – Trust and Agency Funds	23
Statement of Changes in Fiduciary Net Assets – Trust Fund	24
Notes to Financial Statements	25-45
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule:	
General Fund	46
Schedule of Funding Progress for Post-Employment Benefit Plan	47
Notes to the Required Supplemental Information	48
SUPPLEMENTARY INFORMATION:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	49
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	50
Agency Fiduciary Funds:	
Combining Statement of Changes in Assets and Liabilities	51

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2012

TABLE OF CONTENTS (Continued)

	<u>Page</u>
SUPPLEMENTARY INFORMATION: (Continued)	
Other Schedules:	
Fiscal Compliance Report – 06/30/12	52
Schedule of Expenditures of Federal Awards	53
Notes to the Schedule of Expenditures of Federal Awards	54
STATISTICAL SECTION:	
Tax Levies, Tax Rates and Student Census (Unaudited)	55
OTHER REPORTS:	
Report on Compliance Based on an Audit of the Financial Statements Performed in Accordance With the <i>Minnesota Legal Compliance Audit Guide for Political Subdivisions</i>	56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57-58
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	59-60
Schedule of Findings and Questioned Costs	61-63

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
YEAR ENDED JUNE 30, 2012

OFFICIAL DIRECTORY
(Unaudited)

	<u>July 1, 2011 to December 31, 2011</u>	<u>January 1, 2012 to June 30, 2012</u>
<u>School Board Members and Officers</u>		
Chairperson	Richard (Bill) Faver	Ann Long Voelkner
Vice-Chairperson	Ann Long Voelkner	John Pugleasa
Clerk	John Pugleasa	Carol Johnson
Treasurer	Carol Johnson	Melissa Bahr
Director	Melvin (Gene) Dillon	Richard (Bill) Faver
Director	Melissa Bahr	Melvin (Gene) Dillon
<u>Administration</u>		
Superintendent	Dr. James Hess	Dr. James Hess
Business Manager	Chris Leinen, J.D.	Chris Leinen, J.D.



MILLER MCDONALD, INC.
Certified Public Accountants
513 Beltrami Avenue
P.O. Box 486
Bemidji, MN 56619
(218) 751 - 6300
Fax (218) 751 - 0782
www.millermcdonald.com

INDEPENDENT AUDITOR'S REPORT

**The Board of Education
Independent School District No. 31
Bemidji, 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. 31, Bemidji, Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 31, Bemidji, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31, Bemidji, Minnesota, as of June 30, 2012, and the respective changes in financial position 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 a report dated December 15, 2012, on our consideration of Independent School District No. 31, Bemidji, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Independent School District No. 31
Bemidji, Minnesota**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information and the schedule of funding progress for post-employment benefit plan on pages 4 through 16 and 46 through 48, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 31 – Bemidji, Minnesota's financial statements as a whole. The official directory, combining nonmajor fund financial statements, combining agency fund financial statement, statistical section, and fiscal compliance report are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements, the combining agency fund financial statement, the schedule of expenditures of federal awards, and the fiscal compliance report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The official directory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Miller McDonald, Inc.

December 15, 2012
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

This section of Independent School District No. 31 – Bemidji, Minnesota'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 year ended June 30, 2012 include the following:

- Net assets increased by 4.80% from the prior year.
- District-wide revenues were \$62,097,339 and district-wide expenses were \$59,863,710.
- Total enrollment increased by 64.13 students from 5,596.38 to 5,660.51 weighted ADM students; with larger increases occurring at the elementary school level and offset by declining enrollment at the secondary level.
- The general fund balance increased by \$110,040.
- The District purchased five new buses in the amount of \$358,822.
- The District retired \$3,325,000 in general obligation bond principal, including the final payment on the general obligation refunding bonds of 2004.
- On September 1, 2011, the District repaid aid anticipation certificates of \$3,465,968 and on August 25, 2011 issued \$2,947,132 in aid anticipation certificates.

OVERVIEW OF THE FINANCIAL STATEMENTS

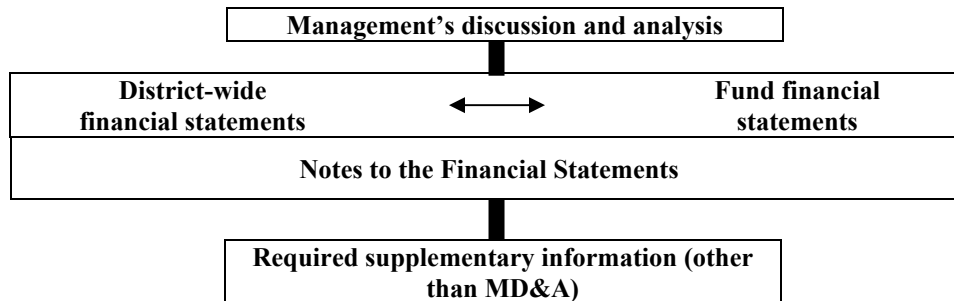
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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 on the District's operations in more detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular, vocational and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others whom the resources belong.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district except fiduciary funds	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as retiree benefits and student activities
Required financial statements	<ul style="list-style-type: none"> Statement of net assets Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 years' revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The district-wide statements report the District's net assets and how they 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** – The majority of the District's basic services are included within these activities; such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance the majority of these activities.

Fund Financial Statements

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

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

The District has two types of funds:

Governmental Funds – The majority 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 following the governmental funds statements that explains the relationship (or differences) between them.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities (consisting of an irrevocable trust fund and two agency funds held for others) are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS)

Net Assets

The District's combined net assets were \$48,743,489 at June 30, 2012 (see the following table). At June 30, 2011 the net assets were \$46,509,860 with an increase of \$2,233,629 from operating activities for the year ended June 30, 2012.

	2012	2011	Net Changes	
			Amount	Percent
Current and other assets	\$ 30,949,562	\$ 30,989,137	\$ (39,575)	-0.13%
Capital assets, net of depreciation	63,321,445	64,478,889	(1,157,444)	-1.80%
Total assets	94,271,007	95,468,026	(1,197,019)	-1.25%
Current payables	16,434,747	16,322,990	111,757	0.68%
Long-term liabilities:				
Due within one year	3,343,358	3,527,110	(183,752)	-5.21%
Due after one year	25,749,413	29,108,066	(3,358,653)	-11.54%
Total liabilities	45,527,518	48,958,166	(3,430,648)	-7.01%
Net assets:				
Invested in capital assets, net of related debt	40,078,056	37,858,427	2,219,629	5.86%
Restricted	4,192,516	4,734,001	(541,485)	-11.44%
Unrestricted	4,472,917	3,917,432	555,485	14.18%
Total net assets	\$ 48,743,489	\$ 46,509,860	\$ 2,233,629	4.80%

Net assets increased by 4.80% for the year ended June 30, 2012 primarily due to the reduction in long-term debt.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

Change in Net Assets

The increase in net assets occurs as a result of the District's revenues being more than its expenses for the years ended June 30, 2012 and 2011. A summary of the District's revenues and expenses, along with the amount of change and percentages for each category are as follows:

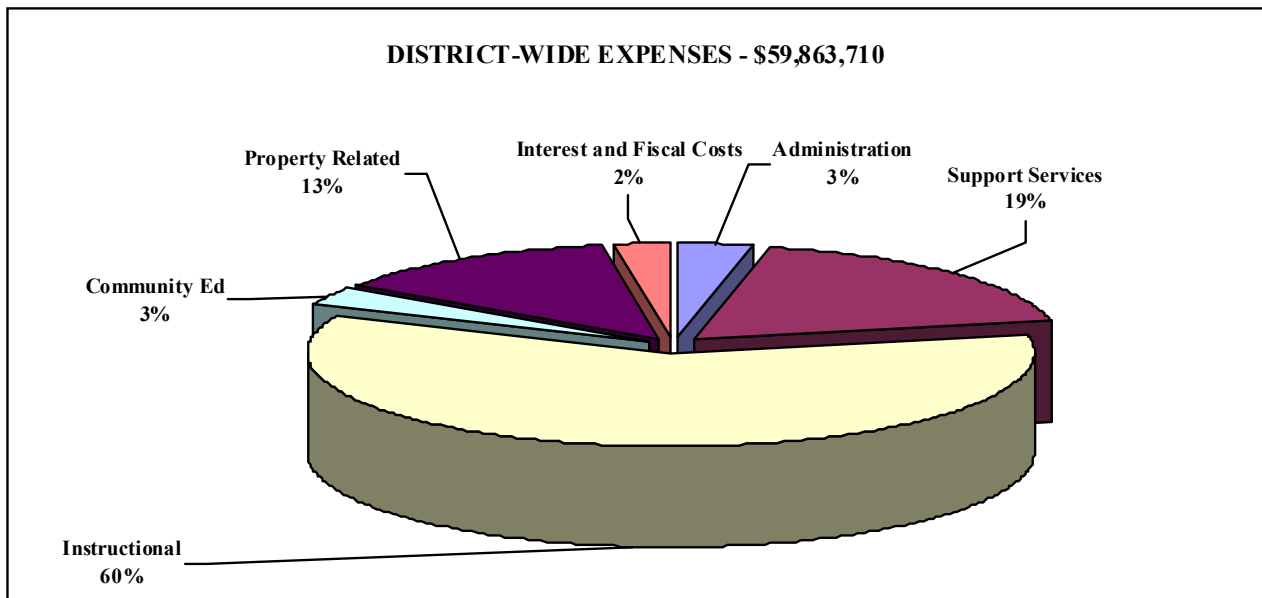
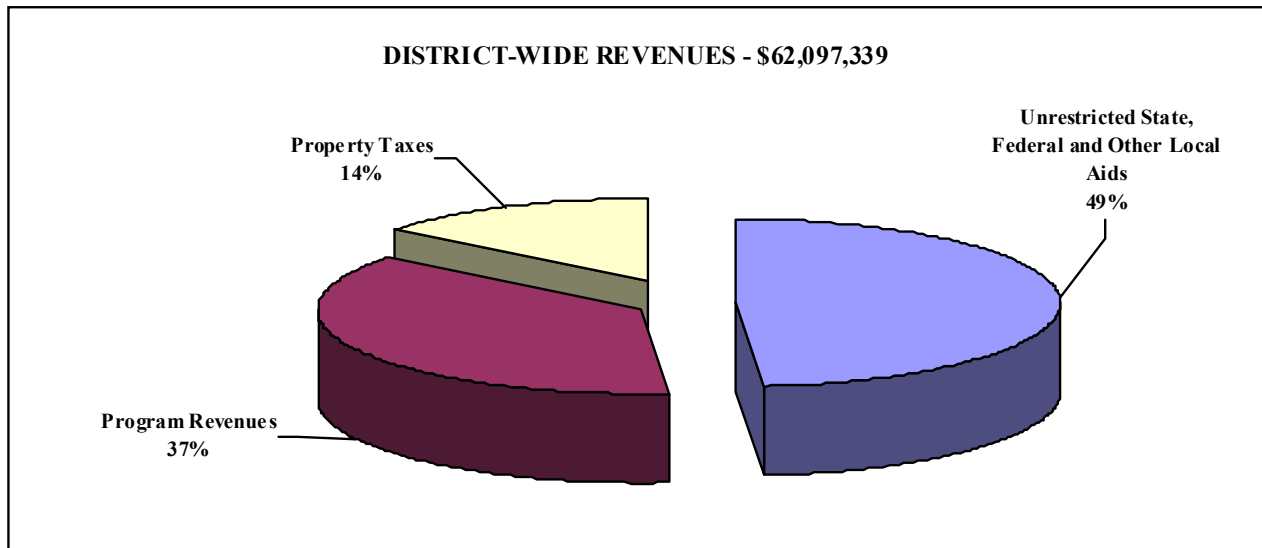
	2012		2011		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<u>Revenues:</u>						
Program Revenues:						
Charges for Services	\$ 2,704,673	4.36%	\$ 3,350,113	5.46%	\$ (645,440)	-19.27%
Operating Grants and Contributions	20,302,867	32.70%	19,215,165	31.33%	1,087,702	5.66%
Total Program Revenues	23,007,540	37.05%	22,565,278	36.79%	442,262	1.96%
General Revenues:						
Property Taxes	8,865,116	14.28%	10,912,952	17.79%	(2,047,836)	-18.77%
Unrestricted Aids and Payments from State and Federal Sources	30,132,649	48.52%	27,659,518	45.09%	2,473,131	8.94%
Other Sources	92,034	0.15%	199,413	0.33%	(107,379)	-53.85%
Total General Revenues	39,089,799	62.95%	38,771,883	63.21%	317,916	0.82%
Total Revenues	62,097,339	100.00%	61,337,161	100.00%	760,178	1.24%
<u>Expenses:</u>						
Instructional:						
Regular Instruction	23,445,998	39.17%	22,425,816	39.21%	1,020,182	4.55%
Vocational Instruction	374,136	0.62%	413,425	0.72%	(39,289)	-9.50%
Exceptional Instruction	11,757,631	19.64%	10,863,585	19.00%	894,046	8.23%
Total Instructional	35,577,765	59.43%	33,702,826	58.92%	1,874,939	5.56%
Support Services:						
District Support Services	1,248,186	2.09%	1,151,523	2.01%	96,663	8.39%
Instructional Support Services	1,660,583	2.77%	1,606,898	2.81%	53,685	3.34%
Pupil Support Services	8,233,165	13.75%	7,888,392	13.79%	344,773	4.37%
Total Support Services	11,141,934	18.61%	10,646,813	18.62%	495,121	4.65%
Administration	1,979,622	3.31%	1,989,295	3.48%	(9,673)	-0.49%
Community Education and Services	1,801,002	3.01%	1,780,902	3.11%	20,100	1.13%
Site, Buildings and Equipment	7,881,823	13.17%	7,609,343	13.31%	272,480	3.58%
Fiscal and Other Fixed Costs	158,238	0.26%	91,382	0.16%	66,856	73.16%
Interest on Long-Term Debt	1,323,326	2.21%	1,366,934	2.39%	(43,608)	-3.19%
Total Expenses	59,863,710	100.00%	57,187,495	100.00%	2,676,215	4.68%
Changes in Net Assets	\$ 2,233,629		\$ 4,149,666		\$ (1,916,037)	

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

For the year ended June 30, 2012, the District's total revenues were \$62,097,339 and consisted of program revenues of \$23,007,540, property taxes of \$8,865,116, general aids and payments from state and federal sources of \$30,132,649, and other sources of \$92,034. Expenses totaling \$59,863,710 consisted of regular, vocational and exceptional instruction costs of \$35,577,765; district, instructional and pupil support services of \$11,141,934; site, buildings and equipment related costs of \$7,881,823; community education and services costs of \$1,801,002; administrative costs of \$1,979,622; interest on long-term debt of \$1,323,326, and other costs of \$158,238.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2012:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2012 and 2011 are as follows:

	<u>Cost of Services - 2012</u>		<u>Cost of Services - 2011</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
District and School Administration	\$ 1,979,622	\$ 1,594,785	\$ 1,989,295	\$ 1,639,283
District Support Services	1,248,186	1,248,186	1,151,523	1,151,523
Regular Instruction	23,445,998	15,155,528	22,425,816	15,361,842
Vocational Instruction	374,136	374,136	413,425	413,425
Exceptional Instruction	11,757,631	4,343,093	10,863,585	3,145,726
Community Education and Services	1,801,002	134,598	1,780,902	(598,309)
Instructional Support Services	1,660,583	495,620	1,606,898	476,935
Pupil Support Services	8,233,165	4,562,515	7,888,392	4,323,886
Site, Buildings and Equipment	7,881,823	7,466,145	7,609,343	7,249,590
Fiscal and Other Fixed Costs	158,238	158,238	91,382	91,382
Interest on Long-Term Debt	1,323,326	1,323,326	1,366,934	1,366,934
Total Expenses	<u>\$ 59,863,710</u>	<u>\$ 36,856,170</u>	<u>\$ 57,187,495</u>	<u>\$ 34,622,217</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS)

Fund Balances

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 \$10,898,787.

Total fund balances decreased in the amount of \$105,118 from the end of the prior year. While revenues exceeded expenditures in the general fund by \$110,040 and in the food service fund by \$208,906, expenditures exceeded revenues in the community service fund, the OPEB debt service fund, and the debt redemption fund by \$136,766, \$275,887, and \$11,411, respectively.

The authority to set aside or "label" funds usually comes from a state or federal ordinance or a school board resolution. Restricting and committing funds is referred to by GASB as "stabilization agreements" in recognition that these funds are not available to spend in the next year in an unrestricted fashion. In the case of the District we have five levels of committed or restricted funds.

The highest level is for "Restricted Funds". These are funds whose purpose is determined in statute. Examples include Staff Development, Deferred Maintenance, Health and Safety, Operating Capital, Alternative Programs, Gifted and Talented and Safe Schools. At June 30, 2012, our restricted general fund balance is \$2,461,374, which is a decrease of \$420,983 from the prior year. A major reason for the decrease in the Restricted Fund Balances for Operating Capital and Deferred Maintenance is the aggressive roof replacement projects at the Central Elementary, Paul Bunyan Center and Horace May Elementary school buildings.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

The second highest level is "Committed for Specific Purpose", which requires Board action. This fund balance decreased from \$361,050 to \$56,783, representing expenditures of the majority of the funds for the Horace May parking lot as well as completing the purchase on the Enbridge Property.

The "Committed for Separation/Retirement Benefits" fund balance is \$577,793 and represents the next three years of our unfunded liability as calculated in our GASB 16 actuarial analysis. This obligation deals primarily with employee severance agreements contained in negotiated agreements. The total unfunded liability is currently calculated at \$1,044,489 by Hildi Incorporated. This GASB No. 16 actuarial analysis is performed every two years in addition to our GASB No. 45 calculations.

GASB No. 45 deals mainly with other post-employment retiree health insurance and has been partially funded through a bond issue that was deposited into a Post-Employment Benefits Irrevocable Trust, the current balance of which is \$4,572,905. The current other post-employment health benefit liability as estimated by our actuaries, Hildi Inc., is \$6,130,609.

The "Non-spendable" fund balance in the general fund is \$917,170 and is largely made up of pre-bought inventory in the warehouse and prepaid health insurance expenditures.

The general fund "Assigned" fund balance is \$236,948 and represents several projects that have been committed to or largely completed, but not paid, for as of June 30, 2012. Examples include the roof projects at the Paul Bunyan Center and the Horace May elementary school buildings.

Our fund balance policy requires that we have at least 10% of our general fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$5,641,366 represents 10.6% of our 2012 general fund expenditures of \$53,258,612 and therefore does not trigger the actions described above. The unassigned portion of our general fund balance represents 8.9% of our budget or about 32 days of operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

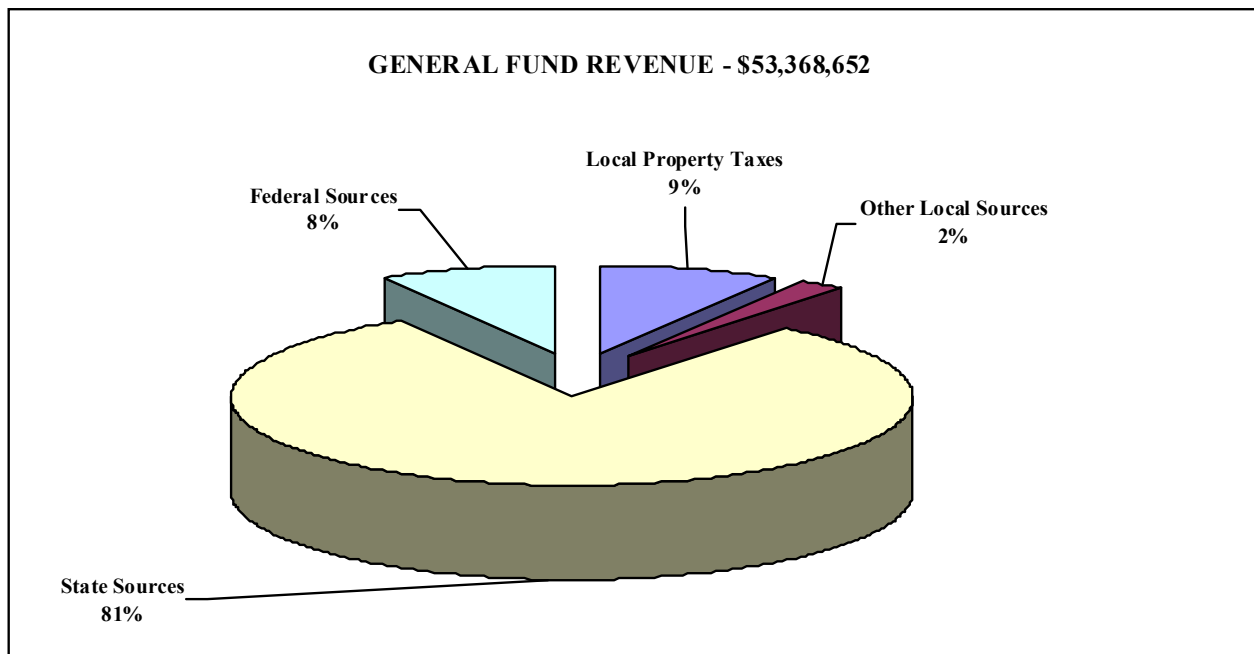
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$62,113,454 while total expenditures were \$62,218,572. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

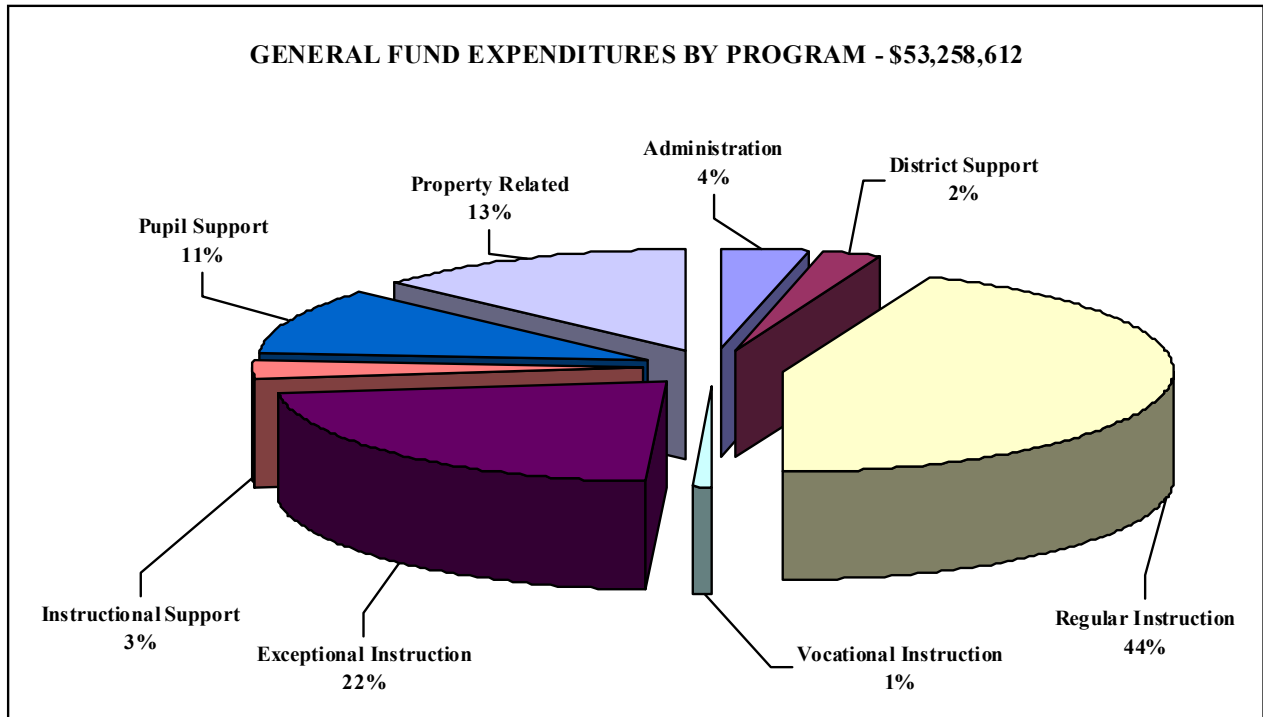
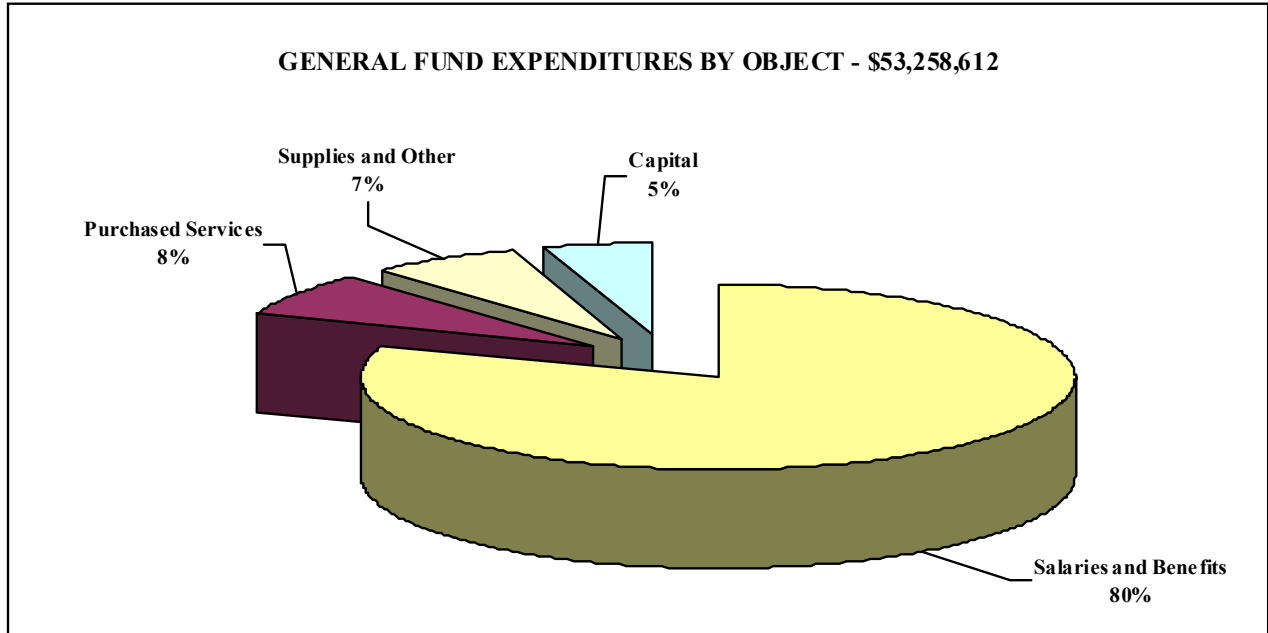
	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance Increase (Decrease)</u>
Major Funds:			
General Fund	\$ 53,368,652	\$ 53,258,612	\$ 110,040
Debt Redemption Fund	4,325,801	4,337,212	(11,411)
Non-major Funds:			
Food Service Fund	2,756,216	2,547,310	208,906
Community Service Fund	1,678,657	1,815,423	(136,766)
OPEB Debt Redemption Fund	(15,872)	260,015	(275,887)
Totals	<u>\$ 62,113,454</u>	<u>\$ 62,218,572</u>	<u>\$ (105,118)</u>

The following graphs are presented for the general fund revenues and expenditures:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

General Fund Budgetary Highlights

During the year ended June 30, 2012, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2011, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the state of Minnesota a budget is also an appropriating document. The first revision occurred in the fall of 2011 when enrollment numbers, staffing levels and other significant informational items were more available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

Although the District's general fund final budget anticipated that expenditures would exceed revenues by \$2,092,900, the actual results for the year reported revenues exceeded expenditures in the amount of \$110,040. Actual expenditures were \$529,309 under the budgeted amount. Revenues exceeded the budgeted amount by \$1,673,631. These variances in the budget were primarily attributed to the following:

- Revenue from local property taxes exceeded budgeted amounts by \$160,700 due to the volatility of delinquent taxes being accumulated over a seven year time period.
- Revenue from Per Pupil Aid exceeded budget by \$611,000 due to increased enrollment.
- Categorical revenue for Compensatory Education exceeded budget by \$244,778 due to a double effect of higher free & reduced lunch counts.
- Special Education funding exceeded budget by \$544,309 due to a lower negative adjustment at the state level combined with lower tuition expense cost adjustment than the prior year.
- Medical Assistance revenue thru the Department of Human Services was less than budget by \$283,216 due to a lag in the timing of billings and payments in the Federal Reimbursement System.
- Revenue from the Lumberjack Foundation exceeded budget by \$19,611 due to some one time grant approvals.
- Revenue from the Federal Early Retirement Reinsurance Program exceeded budget by \$98,941. This was a new federal program with unknown variables so no budget was set up. The revenues were used to lower health costs for all school district policy holders.

Variances in budgeted versus actual expenditures were as follows:

- Regular instruction and vocational instruction were \$1,162,081 and \$126,528 under budget, respectively.
- Exceptional instruction and pupil support services were \$617,764 and \$195,829 over budget, respectively.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year the District added \$1,481,868 of capital assets to its inventory records. Additions included \$201,545 of land, \$157,478 of equipment, \$631,721 of transportation vehicles, and \$491,124 in new construction and other building improvements. The District disposed of various equipment and eleven fully depreciated vehicles, including three buses, with a total original cost of \$972,469.

Long-Term Debt

As of June 30, 2012 the District's long-term indebtedness totaled \$29,092,771. This consisted of bonded indebtedness of \$27,190,000, less net unamortized bond discount and premium of \$145,107, a capital lease of \$1,003,389, and severance payable of \$1,044,489. As of June 30, 2012, Other Post-Employment Benefits (OPEB) has a surplus and is included as an asset on the Statement of Net Assets.

During the year the District retired \$3,325,000 of outstanding bond principal and paid \$1,269,553 of interest on long-term outstanding bonds payable. The District also paid \$52,073 of principal on the outstanding capital lease. Severance Payable had a net decrease of \$190,295 and the OPEB surplus had a net decrease of \$56,633.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Political Environment

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the District receives the single largest state aid, is set at \$5,174 and it will increase to \$5,224 in fiscal year 2013. This increase of \$50 per pupil represents less than 1% of general education revenue. This amount will not keep pace with inflation which makes an adequate reserve fund balance even more important.

In addition, the Legislature will allow the holdback of state aids to be reduced from 36% to 18%. The combination of increased cash flow from reducing the holdback and an adequate fund balance may allow for the District to refrain from short-term borrowing needs.

Labor Force

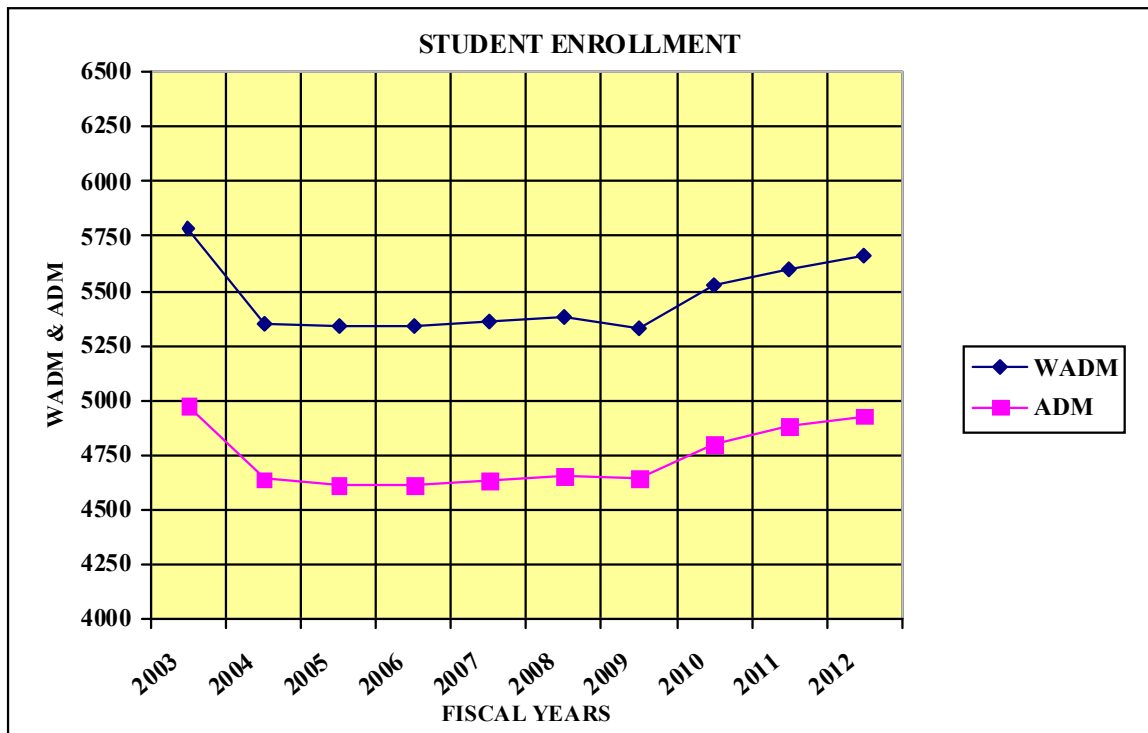
Labor contracts, which are in effect through June 30, 2013, were negotiated for the two-year period beginning July 1, 2011. Salaries, wages and benefits account for 80% of the District's general fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FACTORS BEARING ON THE DISTRICT’S FUTURE (Continued)

Student Enrollment

The following graph shows the student enrollment trend for both weighted average daily membership (WADM) and average daily membership (ADM) for the past ten-years.



Recent growth patterns are expected to continue as birth rates for the last five years have been up from the previous years.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact Chris Leinen, J.D., Director of Business Services, at District offices located at, 3300 Gillett Drive NW, Bemidji, Minnesota 56601.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Cash and Investments		\$ 4,020,983
Property Taxes Receivable		4,272,211
Due from Other Governmental Units		17,713,541
Other Accounts Receivable		51,182
Inventories		383,533
Prepaid Expenditures		567,618
Other Post-Employment Benefits		3,940,494
Capital Assets:		
Land	\$ 2,907,564	
Construction in Progress	290,363	
Depreciable Capital Assets, Net of Depreciation	60,123,518	63,321,445
Total Assets		<u>94,271,007</u>

LIABILITIES

Short-Term Indebtedness - Certificates of Indebtedness		2,954,612
Salaries and Wages Payable		3,809,200
Accounts Payable		894,690
Interest Payable		381,356
Due to Other School Districts		16,155
Due to Other Governmental Units		491
Payroll Deductions and Employer Contributions		715,649
Accrued Compensated Absences Payable		251,535
Deferred Revenue		827,313
Property Taxes Levied for Subsequent Years' Expenditures		6,583,746
Long-Term Liabilities:		
Portion Due Within One Year	3,343,358	
Portion Due After One Year	25,749,413	29,092,771
Total Liabilities		<u>45,527,518</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt		40,078,056
Restricted for:		
State Mandated Programs		3,451,281
Debt Service		741,235
Unrestricted		4,472,917
Total Net Assets		<u>\$ 48,743,489</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expense)
		<u>Charges for</u>	<u>Operating</u>	Revenue and
		<u>Services</u>	<u>Grants and</u>	Changes in
			<u>Contributions</u>	Net Assets
Governmental Activities				
District and School Administration	\$ 1,979,622	\$ -	\$ 384,837	\$ (1,594,785)
District Support Services	1,248,186	-	-	(1,248,186)
Regular Instruction	23,445,998	661,072	7,629,398	(15,155,528)
Vocational Instruction	374,136	-	-	(374,136)
Exceptional Instruction	11,757,631	-	7,414,538	(4,343,093)
Community Education and Services	1,801,002	922,171	744,233	(134,598)
Instructional Support Services	1,660,583	-	1,164,963	(495,620)
Pupil Support Services	8,233,165	1,096,374	2,574,276	(4,562,515)
Site, Buildings and Equipment	7,881,823	25,056	390,622	(7,466,145)
Fiscal and Other Fixed Costs	158,238	-	-	(158,238)
Interest on Long-Term Debt	1,323,326	-	-	(1,323,326)
Total Governmental Activities	\$ 59,863,710	\$ 2,704,673	\$ 20,302,867	(36,856,170)
 <u>General Revenues:</u>				
Property Taxes:				
				4,568,757
				333,894
				3,962,465
				30,132,649
				(11,386)
				103,420
				39,089,799
 <u>Change in Net Assets</u>				
				2,233,629
 <u>Net Assets - Beginning of Year</u>				
				46,509,860
 <u>Net Assets - End of Year</u>				
				\$ 48,743,489

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General Fund</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash	\$ -	\$ 2,855,357	\$ 662,758	\$ 3,518,115
Investments	502,868	-		502,868
Property Taxes Receivable	2,119,265	1,720,470	432,476	4,272,211
Due from Other Funds	-	-	574,298	574,298
Due from Other Governmental Units	17,340,202	126,458	246,881	17,713,541
Other Accounts Receivable	51,182	-	-	51,182
Inventories	352,491	-	31,042	383,533
Prepaid Expenditures	564,679	-	2,939	567,618
Total Assets	\$ 20,930,687	\$ 4,702,285	\$ 1,950,394	\$ 27,583,366
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 3,632,100	\$ -	\$ 177,100	\$ 3,809,200
Accounts Payable	888,584	-	6,106	894,690
Interest Payable	47,645	-	-	47,645
Due to Other Minnesota School Districts	16,155	-	-	16,155
Outstanding Certificates of Indebtness	2,954,612	-	-	2,954,612
Due to Other Funds	574,298	-	-	574,298
Due to Other Governmental Units	491	-	-	491
Payroll Deductions and Employer Contributions	683,968	-	31,681	715,649
Deferred Revenue	801,149	-	26,164	827,313
Deferred Revenue - Delinquent Taxes	126,553	124,117	10,110	260,780
Property Taxes Levied for Subsequent Years' Expenditures	2,185,222	3,627,350	771,174	6,583,746
Total Liabilities	11,910,777	3,751,467	1,022,335	16,684,579
<u>Fund Equity</u>				
Nonspendable	917,170	-	33,981	951,151
Restricted	2,461,374	950,818	979,796	4,391,988
Committed	634,576	-	-	634,576
Assigned	236,948	-	-	236,948
Unassigned (Deficit)	4,769,842	-	(85,718)	4,684,124
Total Fund Equity	9,019,910	950,818	928,059	10,898,787
Total Liabilities and Fund Equity	\$ 20,930,687	\$ 4,702,285	\$ 1,950,394	\$ 27,583,366

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		\$ 10,898,787
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Cost	\$ 103,642,854	
Accumulated Depreciation	<u>(40,321,409)</u>	
Net Depreciated Value of Capital Assets		63,321,445
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(333,711)
The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues.		260,780
Other post-employment benefits (OPEB) are normally reported as long-term liabilities and the liability is amortized over future periods. However, the District has issued bonds to pay for the OPEB liabilities, therefore, the liability is considered as prepaid and reported as an asset in the statement of net assets.		3,940,494
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities - both current and long-term are reported in the statement of net assets.		
General Obligation Bonds Payable	(27,190,000)	
Net Unamortized Bond Discount/Premium	145,107	
Capital Lease Payable	(1,003,389)	
Compensated Absences Payable	(251,535)	
Severance Payable	<u>(1,044,489)</u>	<u>(29,344,306)</u>
Total Net Assets - Governmental Activities		\$ <u>48,743,489</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Fund	Debt Redemption	Other Governmental Funds	Totals
<u>Revenues</u>				
Local Property Taxes	\$ 4,576,648	\$ 3,970,024	\$ 334,559	\$ 8,881,231
Other Local and County Revenues	1,138,459	-	616,249	1,754,708
Revenues from State Sources	43,183,651	354,224	595,484	44,133,359
Revenues from Federal Sources	4,431,032	-	1,791,845	6,222,877
Sales and Other Conversions of Assets	36,291	-	1,096,374	1,132,665
Investment Earnings	2,571	1,553	(15,510)	(11,386)
Total Revenues	53,368,652	4,325,801	4,419,001	62,113,454
<u>Expenditures</u>				
District and School Administration	1,996,272	-	-	1,996,272
District Support Services	1,235,998	-	-	1,235,998
Regular Instruction	23,427,760	-	-	23,427,760
Vocational Instruction	366,548	-	-	366,548
Exceptional Instruction	11,833,417	-	-	11,833,417
Community Education and Services	-	-	1,803,318	1,803,318
Instructional Support Services	1,662,786	-	-	1,662,786
Pupil Support Services	5,628,009	-	2,559,415	8,187,424
Site, Buildings, and Equipment	6,949,584	-	-	6,949,584
Fiscal and Other Fixed Costs	158,238	-	-	158,238
Debt Service:				
Principal Retirement	-	3,325,000	-	3,325,000
Interest and Fiscal Fees	-	1,012,212	260,015	1,272,227
Total Expenditures	53,258,612	4,337,212	4,622,748	62,218,572
<u>Excess of Revenues Over (Under) Expenditures</u>	110,040	(11,411)	(203,747)	(105,118)
<u>Fund Balances, Beginning of Year</u>	8,909,870	962,229	1,131,806	11,003,905
<u>Fund Balances, End of Year</u>	\$ 9,019,910	\$ 950,818	\$ 928,059	\$ 10,898,787

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (105,118)

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

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

Capital Outlay	\$ 1,481,868	
Depreciation Expense	(2,639,312)	
Excess Depreciation Expense Over Capital Outlay		(1,157,444)

Deferred delinquent property taxes are not available to pay current period expenditures and, therefore, are deferred in the funds.

Balances at June 30, 2012	260,780	
Balances at June 30, 2011	(276,895)	
		(16,115)

Interest on long-term debt 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 when it is due.

Accrued Interest at June 30, 2012	(333,711)	
Accrued Interest at June 30, 2011	363,982	
		30,271

Other Post-Employment Benefits (OPEB) are reported in the statement of activities but does not require the use of current financial resources and therefore, is not reported as an expenditure in the governmental funds.

(56,633)

Compensated absences consisting of vacation pay is reported in the statement of activities but does not require the use of the current financial resources and therefore, is not reported as an expenditure in the governmental funds.

Compensated Absences at June 30, 2012	(251,535)	
Compensated Absences at June 30, 2011	247,798	
		(3,737)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the statement of assets. In the current period these amounts consist of:

Bond Principal Retirement	3,325,000	
Capital Lease Payments	52,073	
Net Amortization of Bond Premium/Discount	(24,963)	
Net Decrease in Severance Payable	190,295	
		3,542,405

Change in Net Assets of Government Activities \$ 2,233,629

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS -
TRUST AND AGENCY FUNDS
JUNE 30, 2012

	<u>OPEB Irrevocable Trust Fund</u>	<u>Combined Agency Funds</u>
<u>ASSETS</u>		
Cash and Investments	\$ 4,550,938	\$ 420,762
Accrued Interest receivable	21,967	-
	<hr/>	<hr/>
<u>Total Assets</u>	<u>\$ 4,572,905</u>	<u>\$ 420,762</u>
 <u>LIABILITIES</u>		
Accounts Payable	\$ -	\$ 90,222
Due to Organizations	-	330,540
	<hr/>	<hr/>
<u>Total Liabilities</u>	<u>-</u>	<u>\$ 420,762</u>
 <u>NET ASSETS</u>		
Net Assets Held in Trust	<u>\$ 4,572,905</u>	

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
TRUST FUND
YEAR ENDED JUNE 30, 2012

	<u>OPEB Irrevocable Trust Fund</u>
<u>Additions:</u>	
Investment Earnings	\$ 130,945
<u>Deductions:</u>	
Employee Benefits	<u>145,062</u>
<u>Change in Net Assets</u>	(14,117)
<u>Net Assets - Beginning of Year</u>	<u>4,587,022</u>
<u>Net Assets - End of Year</u>	<u><u>\$ 4,572,905</u></u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Independent School District No. 31 have been prepared in conformity with U. S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2012. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

A. Reporting Entity

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

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for component units include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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

B. 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 fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses. 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 capital requirements of a particular function or segment. Operating grants include operating-specific grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for purposes 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.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the district-wide financial statements. There were no inter-fund activities between funds in the current fiscal year.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (trust and agency funds). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide and fiduciary funds 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 or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2011 payable 2012 levy has been recognized as revenue during the current year, as discussed in Note 4.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Other revenues are recognized when susceptible to accrual, i.e., when they become both 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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Description of Funds

The existence of the various District funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. A description of the major governmental funds and fiduciary funds in this report are as follows:

Governmental Funds

General Fund – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the District, which are not accounted for in other District funds.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

Post-Employment Benefits Irrevocable Trust Fund – The District is the trustee, or fiduciary, for assets set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund are expensed to the general, food service or community service funds.

Agency Funds – Account for assets held solely in a custodial capacity.

All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Additionally, the District reports the following non-major funds:

Special Revenue Funds – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

Community Service Fund – Accounts for the revenues and expenditures related to recreation, public use of school facilities, non-public pupils, adult education programs, and early childhood and family development.

OPEB Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, OPEB bonds principal, interest and related costs.

D. Assets, Liabilities, Net Assets and Fund Balances

Cash and Investments - Cash balances for all funds, including cash equivalents, but excluding Fiduciary Funds, are maintained on a combined basis and invested, to the extent possible, in allowable investments. The District's general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term 'nonparticipating' means that the investment's value does not vary with market interest rate changes.

Property Taxes Receivable - represents current and delinquent taxes receivable at June 30, 2012. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivables are taxes collectible for the 2005 through 2011 calendar years that remain uncollected.

Due From Other Governmental Units - are amounts due from other governmental units that consist of amounts primarily due from the other Minnesota school districts, Hubbard County, the Minnesota Department of Education and from the Federal Government through the Minnesota Department of Education for state and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

Inventories - consist of purchased food commodities, supplies and donated United States Department of Agriculture (USDA) commodities. Purchased food and supplies are recorded at the lower of cost (first-in, first-out) or market method. The donated USDA commodities are stated at standardized cost as determined by the USDA.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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

Capital Assets - are capitalized at historical cost, or estimated historical cost based on an inventory dated June 30, 2002. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

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

Deferred Revenue - represents revenues, other than property taxes, collected before they are earned.

Deferred Revenue – Delinquent Property Taxes - represents property taxes for the years 2005 through 2011 that remain uncollected.

Property Taxes Levied for Subsequent Years' Expenditures - consist of current levies of local taxes, including portions assumed by the State that will be recognized as revenue in the next fiscal year beginning July 1, 2012, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

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 accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the district-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Equity - The following classifications describe the relative strength of the spending constraints placed on a government's fund balances:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid or prepaid items) or are required to be maintained intact.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

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

The District's fund balance policy requires that it have at least 10% of the general fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$5,641,366 represents 10.6% of the 2012 general fund expenditures of \$53,258,612 and therefore does not trigger the actions described above. The unassigned portion of the general fund balance represents 8.9% of the budget or about 32 days of operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Totals
Nonspendable:				
Inventory	\$ 352,491	\$ -	\$ 31,042	\$ 383,533
Prepaid Expenses	564,679	-	2,939	567,618
Restricted:				
Staff Development	54,046	-	-	54,046
Deferred Maintenance	175,974	-	-	175,974
Operating Capital	1,502,587	-	-	1,502,587
State Approved Learning Program	405,393	-	-	405,393
Gifted and Talented	142,808	-	-	142,808
Safe Schools - Crime Levy	180,566	-	-	180,566
Food Service	-	-	792,992	792,992
Early Childhood and Family Education	-	-	161,770	161,770
School Readiness	-	-	25,034	25,034
Debt Service	-	950,818	-	950,818
Committed:				
Separation/Retirement Benefits	577,793	-	-	577,793
Parking Lot Development	56,783	-	-	56,783
Assigned:				
Land and Building Improvements and Repairs	236,948	-	-	236,948
Unassigned	4,769,842	-	(85,718)	4,684,124
Totals	<u>\$ 9,019,910</u>	<u>\$ 950,818</u>	<u>\$ 928,059</u>	<u>\$ 10,898,787</u>

E. Compensated Absences

Vacation Pay – Certified staff and certain administrative employees do not receive paid vacations but are paid only for the number of days they are required to work, each in accordance with their respective contracts. Non-certified and other administrative employees are allowed vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Accrued vacation time must be taken within one year after the end of the fiscal year. Compensated absences payable for the amount representing the accumulated vacation payable at June 30, 2012 for these employees is reported in the district-wide financial statements.

Sick Leave and Severance Pay – Employees are allowed to accrue sick leave at varying amounts each year, and accumulate within limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Upon completion of 15 years of service and notice of retirement for teaching staff and certain other employee groups, unused sick leave is convertible to severance pay upon an employee's retirement. Severance is not granted to an employee who is discharged by the District. See Note 12 for severance liability amount.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Under the provisions of the various employee and union contracts the District provides health and dental care coverage until age 65 for retirees and if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums paid for active employees are funded on a pay-as-you-go basis. Retiree costs, net of retiree contributions, are funded through an OPEB Irrevocable Trust Fund.

F. Use of Estimates

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

NOTE 2 – Stewardship, Compliance, and Accountability

Deficit Fund Balance

A fund balance deficit in the amount of \$85,718 exists in nonmajor funds. Such deficits will be eliminated with future revenue sources and/or budgeted expenditure constraints

NOTE 3 – Deposit and Investments

The District's cash and investments are as follows:

	<u>Governmental Activities/ Funds</u>	<u>OPEB Irrevocable Trust Fund</u>	<u>Fiduciary Funds</u>
Pooled Depository Accounts:			
Checking	\$ 1,064,804	\$ -	\$ -
Savings	101,408	-	-
Student Activity Depository Accounts - Checking and Money Market	-	-	330,540
Pooled Investments - MSDLAF+	2,854,771	-	-
Non-pooled Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	-	90,222
Pooled Investments with MN Trust and Associated Wealth Management:			
MNTrust Money Market Account	-	158,397	-
Certificates of Deposit	-	2,668,393	-
Municipal Bonds	-	1,724,148	-
	<u>\$ 4,020,983</u>	<u>\$ 4,550,938</u>	<u>\$ 420,762</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – Deposit and Investments (Continued)

A. Deposits

Authority - In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. 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 or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2012.

B. Investments

Authority - Minnesota Statutes authorize the District to invest in the following types of investments:

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
3. General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers’ acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – Deposit and Investments (Continued)

As of June 30, 2012 the District had the following investments:

<u>Investment</u>	<u>Interest Rates</u>	<u>Fair Value</u>
MSDLAF+ - Money Market Accounts		\$ 2,944,993
MN Trust – Money Market Accounts		158,397
Certificates of Deposit:		
≤ Three months	.865 - 1.603	498,978
≤ One year, ≥ Three months	2.55	245,000
Two to three years	.712- 1.40	1,924,415
Municipal Bonds:		
Centerville, Minnesota Bonds	4.00	291,455
Fairmont, Minnesota Bonds	3.00	252,798
Glendale Heights, Illinois Bonds	3.85	584,336
Minnesota Metropolitan Council Bonds	3.40	443,519
ISD No. 704, Proctor, Minnesota Bonds	2.50	152,040

The District's investments in MN School District Liquid Asset Fund Plus (MSDLAF+) and MN Trust Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The District's investment in the MSDLAF+ and MN Trust Investment Shares Portfolio are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Credit Risk – State law limits investments in general obligations of any state or local government with taxing powers with a rating of "A" or better by a national bond rating service. The District's Municipal Bond investments meet state criteria.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District has total investments of \$4,550,938 in the OPEB irrevocable Trust Fund. With the exception of the ISD No. 704, Proctor, MN bonds, all of the individual municipal bonds exceed 5% of total investments.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – Property Taxes

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15, and October 15. The County provides tax settlements in installments to districts two times a year, on or before June 30 and December 30.

Prior year's taxes, which remain unpaid at June 30, are classified as delinquent taxes receivable and the portion not receivable within 60 days is offset by deferred revenue because they are not available to finance current expenditures.

The maximum amount of property taxes the District may levy is subject to state levy limitations.

Current property taxes receivable consist of the current tax levy less collection prior to June 30. The current tax levy, net of a state mandated property tax shift, is offset by property taxes levied for subsequent years, a deferred revenue account.

NOTE 5 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2012 are as follows:

	General	Debt	Other	
	Fund	Redemption	Governmental	
	Fund	Fund	Funds	Totals
Other Minnesota School Districts	\$ 310,246	\$ -	\$ -	\$ 310,246
Minnesota Department of Education:				
State Aids and Grants	15,267,727	126,458	197,146	15,591,331
Federal Aids and Grants	1,739,934	-	49,735	1,789,669
Hubbard County	10,673	-	-	10,673
Other Governmental Units	11,622	-	-	11,622
Totals	<u>\$ 17,340,202</u>	<u>\$ 126,458</u>	<u>\$ 246,881</u>	<u>\$ 17,713,541</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets				
Land	\$ 2,706,019	\$ 201,545	\$ -	\$ 2,907,564
Construction in Progress	-	290,363	-	290,363
Total Non-depreciable Capital Assets	<u>2,706,019</u>	<u>491,908</u>	<u>-</u>	<u>3,197,927</u>
Depreciable Capital Assets:				
Land Improvements	3,144,794	36,009	-	3,180,803
Buildings	86,323,784	164,752	-	86,488,536
Equipment	10,958,858	789,199	972,469	10,775,588
Total Depreciable Capital Assets	<u>100,427,436</u>	<u>989,960</u>	<u>972,469</u>	<u>100,444,927</u>
Total Capital Assets	<u>103,133,455</u>	<u>1,481,868</u>	<u>972,469</u>	<u>103,642,854</u>
Accumulated Depreciation:				
Land Improvements	1,762,952	134,915	-	1,897,867
Buildings	28,916,606	1,710,526	-	30,627,132
Equipment	7,975,008	793,871	972,469	7,796,410
Total Accumulated Depreciation	<u>38,654,566</u>	<u>2,639,312</u>	<u>972,469</u>	<u>40,321,409</u>
Capital Assets, Net of Depreciation	<u>\$ 64,478,889</u>	<u>\$ (1,157,444)</u>	<u>\$ -</u>	<u>\$ 63,321,445</u>

Depreciation expense was charged to the following program services:

District Support Services	\$ 10,393
Regular Instruction	15,665
Vocational Instruction	22,093
Exceptional Instruction	41,514
Instructional Support Services	8,256
Pupil Support Services	549,194
Site, Buildings and Equipment	1,992,197
Total	<u>\$ 2,639,312</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – Pension Plans

A. Teachers Retirement Association

Plan Description

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

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

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

Tier I:

<u>Step Rate Formula</u>	<u>Coordinated</u>	<u>Basic</u>
1 st ten years prior to July 1, 2006	1.2 percent per year	2.2 percent per year
1 st ten years on or after July 1, 2006	1.4 percent per year	2.2 percent per year
All other years prior to July 1, 2006	1.7 percent per year	2.7 percent per year
All other years on or after July 1, 2006	1.9 percent per year	2.7 percent per year

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – Pension Plans (Continued)

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is also eligible for a refund of their employee contributions plus interest.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefit provisions. The report may be accessed at the TRA website www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
651-296-2409
800-657-3669

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0 percent and 9.5 percent, respectively, of their annual covered salary during fiscal year 2012 as employee contributions. The TRA employer contribution rates are 6.0 percent for Coordinated members and 10.0 percent for Basic members during fiscal year 2012. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2011 was approximately \$3.84 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2010 and June 30, 2009 were \$3.79 billion and \$3.76 billion, respectively.

The District's contributions for the years ending June 30, 2012, 2011, and 2010 were \$1,338,689, \$1,184,892, and \$1,151,367 respectively, equal to the required contributions for each year as set by state statute.

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – Pension Plans (Continued)

B. Public Employees Retirement Association

Plan Description

All full-time and certain part-time non-certified teacher employees of the District are covered by defined benefit plans 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. The 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.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – Pension Plans (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan 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 \$810,553, \$763,412, and \$709,905, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

NOTE 8 - Post-Employment Health Care Benefits

The District's has engaged an actuary to determine the District's liability for post-employment healthcare benefits other than pensions and its plan is as follows:

A. Plan Description

The District operates a single employer retiree benefit plan for both health and dental insurance in which retiring employees and their spouses may participate in at their expense. Retiring employees are eligible to participate only if they are a participant in the District's health and dental insurance at the time of retirement. As of July 1, 2010, there are 587 active participants and 84 retired participants including 25 spouses of retired participants. The retired employees are responsible for reimbursing the District for 100% of the premium cost for their health and dental plans. If a retiree chooses to drop their participation in either plan they are not able to return to the plan. Upon the death of a retiree the retiree's spouse can continue participation only if the spouse was covered under the plan at the time of the retiree's death.

B. Funding Policy

Retiree's who participate in the District's health and/or dental insurance plan pay 100% of their premium cost(s). There is no district contribution; however, as calculated in the District's actuarial study there is an implicit rate subsidy cost to the district as a result of retiree's participating in the health and dental plans. The implicit rate subsidy cost calculation is based on a set of input data to determine the implied cost effect to the district for retiree participation. Per the actuarial study performed the District's implicit rate subsidy cost as of July 1, 2009 was \$311,461.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 - Post-Employment Health Care Benefits (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 391,580
Interest on Net OPEB Obligation	(119,914)
Adjustment to Annual Required Contribution	<u>204,988</u>
Annual OPEB Cost (Expense)	476,654
Contributions Made	<u>(420,021)</u>
Increase in Net OPEB Obligation	56,633
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(3,997,127)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (3,940,494)</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	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
6/30/2010	\$ 677,466	\$ 4,771,481	704.3%	\$ (3,957,892)
6/30/2011	487,515	526,750	108.0%	(3,997,127)
6/30/2012	476,654	420,021	88.1%	(3,940,494)

D. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,543,587. The annual payroll for active employees covered by the plan in the actuarial valuation was \$29,802,510 for a ratio of UAAL to covered payroll of 5.2%.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 – Post-Employment Health Care Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% 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 8.0%, reduced by decrements to an ultimate rate of 5% after six years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis.

NOTE 9 – Operating Leases

The District has entered into two operating lease agreements as follows:

The District has a lease agreement with Beltrami County for office space at the Beltrami County Community Services Center for building space. For the year ended June 30, 2012, the District paid \$104,544 in lease costs for this building space.

The District also has a lease agreement with Sovereign Bank of Melville, New York for three school buses. For the year ended June 30, 2012, the District paid \$28,768 in lease costs for these buses.

The following is a schedule of the remaining minimum required lease payments under the lease agreements:

<u>Year Ending June 30,</u>	<u>Beltrami County</u>	<u>Sovereign Bank</u>
2013	\$ 106,722	\$ 28,768
2014	71,006	71,006

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 - Short-Term Debt

Short-term debt was issued for the interim financing of general fund operations. The activity for the short-term borrowings during the fiscal year 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Retirements</u>	<u>Ending Balance</u>
General Obligation Certificates:				
Series 2010B	\$ 3,465,968	\$ -	\$ 3,465,968	\$ -
Series 2011B	-	2,947,132	-	2,947,132
Unamortized Premium	<u>17,509</u>	<u>49,865</u>	<u>59,894</u>	<u>7,480</u>
Total Short-Term Debt	<u>\$ 3,483,477</u>	<u>\$ 2,996,997</u>	<u>\$ 3,525,862</u>	<u>\$ 2,954,612</u>

The District obtained a 2% fixed rate short-term loan through the Minnesota Tax and Aid Anticipation Program on August 25, 2011 for \$2,986,705 (including fees). The certificate matures on September 9, 2012.

NOTE 11 – Capital Lease

The District has entered into a lease agreement with Wells Fargo Bank. The lease agreement qualifies as a capital lease for accounting purposes. A summary of changes in the capital lease is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
Wells Fargo Bank	\$ 1,055,462	\$ -	\$ 52,073	\$ 1,003,389

The Districts capital lease assets are \$1,100,000 with accumulated depreciation of \$23,977.

The payments on the capital lease are accounted for in the General Fund. The annual requirements to amortize the capital lease at June 30, 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2013	\$ 54,929	\$ 53,550	\$ 108,479
2014	57,941	50,538	108,479
2015	61,117	47,362	108,479
2016	64,469	44,010	108,479
2017	68,004	40,475	108,479
2018-2022	400,210	142,185	542,395
2023-2025	296,719	28,717	325,436
Totals	<u>\$ 1,003,389</u>	<u>\$ 406,837</u>	<u>\$ 1,410,226</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 - Long-Term Debt

A summary of changes in long-term debt is as follows:

	Beginning	Additions	Payments and	Ending	Current Amounts	
	Balance		Retirements	Balance	Principal	Interest
General Obligation Bonds:						
2004 Refunding Bonds	\$ 625,000	\$ -	\$ 625,000	\$ -	\$ -	\$ -
2005 Refunding Bonds	24,940,000	-	2,700,000	22,240,000	2,800,000	902,212
2009A Taxable OPEB Bonds	4,950,000	-	-	4,950,000	285,000	259,590
Total General Obligation Bonds	30,515,000	-	3,325,000	27,190,000	3,085,000	1,161,802
Unamortized Bond Discounts	(225,238)	-	(28,744)	(196,494)	(25,352)	-
Unamortized Bond Premium	55,168	-	3,781	51,387	3,781	-
Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium	30,344,930	-	3,300,037	27,044,893	3,063,429	1,161,802
Capital Lease Payable (See Note 11)	1,055,462	-	52,073	1,003,389	54,929	53,550
Separation and Retirement Benefits:						
Severance Payable	1,234,784	34,439	224,734	1,044,489	225,000	-
Total Long-Term Debt	\$ 32,635,176	\$ 34,439	\$ 3,576,844	\$ 29,092,771	\$ 3,343,358	\$ 1,215,352

General obligation bonds are comprised of the following individual issues at June 30, 2012:

\$34,910,000 General Obligation Refunding Bonds, Series 2005A, issued on January 1, 2005 with interest rates ranging from 3.00% to 4.50%. Interest payments commence on October 1, 2005 and are due each April 1 and October 1 thereafter through year 2019. Principal payments commence on April 1, 2008 and each year thereafter through 2019 in amounts ranging from \$2,370,000 to \$3,600,000.

\$4,950,000 General Obligation Taxable OPEB Bonds, Series 2009A, issued on July 15, 2009, with interest rates ranging from 5.00% to 5.750%. Interest payments commence on February 1, 2010 and are due each February 1 and August 1 thereafter through year 2025. Principal payments commence on February 1, 2013 and each year thereafter through 2025 in amounts ranging from \$285,000 to \$505,000.

The annual requirements to amortize the general obligation bonds at June 30, 2012 are as follows:

Fiscal Year Ended	Bond Principal	Bond Interest	Total
2013	\$ 3,085,000	\$ 1,161,803	\$ 4,246,803
2014	3,205,000	1,049,552	4,254,552
2015	3,340,000	918,352	4,258,352
2016	3,485,000	781,653	4,266,653
2017	3,635,000	639,003	4,274,003
2018-2022	9,000,000	1,191,808	10,191,808
2023-2025	1,440,000	166,137	1,606,137
Totals	\$ 27,190,000	\$ 5,908,308	\$ 33,098,308

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 - Long-Term Debt (Continued)

General obligation bonds of the District are reflected in the district-wide financial statements and current requirements for principal and interest expenditures of the 2005A bond issue is accounted for in the Debt Service Fund. The current requirements for principal and interest expenditures of the 2009 OPEB bond issue are accounted for in a separate Debt Service Fund.

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions and there were no authorized and un-issued bonds at June 30, 2012.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2012. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2009. Estimated additions and subtractions from that estimate have occurred since that date.

NOTE 13 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The District carries various commercial insurance policies covering workers' compensation personal property, commercial liability and automobile liability. There were no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

NOTE 14 - Commitments and Contingencies

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collection of any related receivable at June 30, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Taxes	\$ 5,105,806	\$ 4,425,071	\$ 4,576,648	\$ 151,577
Other Local and County Revenues	1,318,318	1,403,714	1,138,459	(265,255)
Revenues from State Sources	41,757,929	41,539,760	43,183,651	1,643,891
Revenues from Federal Sources	3,728,451	4,302,557	4,431,032	128,475
Sales and Other Conversions of Assets	19,919	19,919	36,291	16,372
Investment Earnings	15,570	4,000	2,571	(1,429)
Total Revenues	51,945,993	51,695,021	53,368,652	1,673,631
<u>Expenditures</u>				
District and School Administration	1,928,628	2,022,132	1,996,272	25,860
District Support Services	1,210,970	1,210,970	1,235,998	(25,028)
Regular Instruction	23,775,753	24,589,841	23,427,760	1,162,081
Vocational Instruction	674,280	493,076	366,548	126,528
Exceptional Instruction	10,778,309	11,215,653	11,833,417	(617,764)
Instructional Support Services	1,513,447	1,654,084	1,662,786	(8,702)
Pupil Support Services	5,154,397	5,432,180	5,628,009	(195,829)
Site, Buildings and Equipment	6,314,276	6,995,775	6,949,584	46,191
Fiscal and Other Fixed Costs	174,210	174,210	158,238	15,972
Total Expenditures	51,524,270	53,787,921	53,258,612	529,309
<u>Excess of Revenues Over (Under)</u>				
<u>Expenditures</u>	421,723	(2,092,900)	110,040	2,202,940
<u>Fund Balances, Beginning of Year</u>	8,909,870	8,909,870	8,909,870	-
<u>Fund Balances, End of Year</u>	\$ 9,331,593	\$ 6,816,970	\$ 9,019,910	\$ 2,202,940

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ -	\$ 5,472,770	\$ 5,472,770	0.00%	\$ 29,456,373	18.58%
July 1, 2009	49,506	6,490,077	6,440,571	0.76%	29,659,335	21.72%
July 1, 2011	4,587,022	6,130,609	1,543,587	74.80%	29,802,510	5.20%

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 – Budgetary Data

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

Legal Compliance – Budgets

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for all funds of the District. However, the General and Special Revenue Funds are the only funds that are legally adopted through the budgetary process as documented below.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary controls are not employed for the Fiduciary Funds.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>ASSETS</u>	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
Cash	\$ 289,820	\$ 53,548	\$ 319,390	\$ 662,758
Property Taxes Receivable	-	180,834	251,642	432,476
Due from Other Funds	574,298	-	-	574,298
Due from Other Governmental Units	3,329	243,552	-	246,881
Inventory	31,042	-	-	31,042
Prepaid Expenditures	-	2,939	-	2,939
Total Assets	\$ 898,489	\$ 480,873	\$ 571,032	\$ 1,950,394
 <u>LIABILITIES AND FUND EQUITY</u> 				
<u>Liabilities</u>				
Salaries Payable	\$ 59,376	\$ 117,724	\$ -	\$ 177,100
Accounts Payable	328	5,778	-	6,106
Payroll Deductions and Employer Contributions	9,114	22,567	-	31,681
Deferred Revenue	5,637	20,527	-	26,164
Deferred Revenue - Delinquent Taxes	-	10,110	-	10,110
Property Taxes Levied for Subsequent Expenditures	-	199,377	571,797	771,174
Total Liabilities	74,455	376,083	571,797	1,022,335
<u>Fund Equity</u>				
Nonspendable	31,042	2,939	-	33,981
Restricted for:			-	-
Early Childhood and Family Education	-	161,770	-	161,770
School Readiness	-	25,034	-	25,034
Food Service	792,992	-	-	792,992
Unassigned (Deficit)	-	(84,953)	(765)	(85,718)
Total Fund Equity	824,034	104,790	(765)	928,059
Total Liabilities and Fund Equity	\$ 898,489	\$ 480,873	\$ 571,032	\$ 1,950,394

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
<u>Revenues</u>				
Local Property Taxes	\$ -	\$ 334,478	\$ 81	\$ 334,559
Other Local and County Revenues	9,263	606,986	-	616,249
Revenues from State Sources	102,493	492,991	-	595,484
Revenues from Federal Sources	1,547,698	244,147	-	1,791,845
Sales and Other Conversions of Assets	1,096,374	-	-	1,096,374
Investment Earnings (Loss)	388	55	(15,953)	(15,510)
Total Revenues	<u>2,756,216</u>	<u>1,678,657</u>	<u>(15,872)</u>	<u>4,419,001</u>
<u>Expenditures</u>				
Community Education and Services	-	1,803,318	-	1,803,318
Pupil Support Services	2,547,310	12,105	-	2,559,415
Debt Service:				
Interest and Fiscal Fees	-	-	260,015	260,015
Total Expenditures	<u>2,547,310</u>	<u>1,815,423</u>	<u>260,015</u>	<u>4,622,748</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	208,906	(136,766)	(275,887)	(203,747)
<u>Fund Balances, Beginning of Year</u>	<u>615,128</u>	<u>241,556</u>	<u>275,122</u>	<u>1,131,806</u>
<u>Fund Balances, End of Year</u>	<u>\$ 824,034</u>	<u>\$ 104,790</u>	<u>\$ (765)</u>	<u>\$ 928,059</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
AGENCY FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Student Activities</u>				
<u>Assets</u>				
Cash and Investments	\$ 341,013	\$ 570,655	\$ 581,128	\$ 330,540
<u>Liabilities</u>				
Due to Student Organizations	\$ 341,013	\$ 570,655	\$ 581,128	\$ 330,540
 <u>BEA Retiree Fringe Benefit Pool</u>				
<u>Assets</u>				
Cash and Investments	\$ 106,636	\$ 739,606	\$ 756,020	\$ 90,222
<u>Liabilities</u>				
Due to Bemidji Education Association	\$ 106,636	\$ 176,582	\$ 192,996	\$ 90,222
 <u>Total All Agency Funds</u>				
<u>Assets</u>				
Cash and Investments	\$ 447,649	\$ 1,310,261	\$ 1,337,148	\$ 420,762
<u>Liabilities</u>				
Due to Bemidji Education Association	106,636	176,582	192,996	90,222
Due to Student Organizations	341,013	570,655	581,128	330,540
<u>Total Liabilities</u>	<u>\$ 447,649</u>	<u>\$ 747,237</u>	<u>\$ 774,124</u>	<u>\$ 420,762</u>

FISCAL COMPLIANCE REPORT - 6/30/2012
District: BEMIDJI (0031-01)

	Audit (-)				Audit (-)		
	Audit	UFARS	UFARS		Audit	UFARS	UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$53,368,652	\$53,368,654	\$-2	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$53,258,612	\$53,258,612	\$0	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$917,170	\$917,170	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$54,046	\$54,046	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$175,974	\$175,974	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	-\$983,069	\$983,069	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	Unassigned:			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0				
4.23 Certain Teacher Programs	\$0	\$0	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$1,502,587	\$1,502,587	\$0	Total Revenue	\$4,325,801	\$4,325,801	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$4,337,212	\$4,337,213	-\$1
4.27 Disabled Accessibility	\$0	\$0	\$0	Non Spendable:			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	Restricted/Reserved:			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$405,393	\$405,393	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.38 Gifted & Talented	\$142,808	\$142,808	\$0	Restricted:			
4.41 Basic Skills Program	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$950,818	\$950,818	\$0
4.45 Career Tech Programs	\$0	\$0	\$0	Unassigned:			
4.49 Safe Schools Levy	\$180,566	\$180,566	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0				
4.51 QZAB Payments	\$0	\$0	\$0	08 TRUST			
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Restricted:				4.22 Unassigned (Net Assets)	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Committed:				20 INTERNAL SERVICE			
4.18 Committed for Separation	\$577,793	\$577,793	\$0	Total Revenue	\$0	\$0	\$0
4.61 Committed Fund Balance	\$56,783	\$56,783	\$0	Total Expenditures	\$0	\$0	\$0
Assigned:				4.22 Unassigned (Net Assets)	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$236,948	\$236,948	\$0				
Unassigned:				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	\$4,769,842	\$5,752,911	-\$983,069	Total Revenue	\$0	\$0	\$0
				Total Expenditures	\$0	\$0	\$0
				4.22 Unassigned (Net Assets)	\$0	\$0	\$0
02 FOOD SERVICES							
Total Revenue	\$2,756,216	\$2,756,216	\$0	45 OPEB IRREVOCABLE TRUST			
Total Expenditures	\$2,547,310	\$2,547,311	-\$1	Total Revenue	\$130,945	\$130,945	\$0
Non Spendable:				Total Expenditures	\$145,062	\$145,062	\$0
4.60 Non Spendable Fund Balance	\$31,042	\$31,042	\$0	4.22 Unassigned (Net Assets)	\$4,572,905	\$4,572,905	\$0
Restricted/Reserved:							
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	47 OPEB DEBT SERVICE			
Restricted:				Total Revenue	-\$15,872	-\$15,872	\$0
4.64 Restricted Fund Balance	\$792,992	\$792,992	\$0	Total Expenditures	\$260,015	\$260,015	\$0
Unassigned:				Non Spendable:			
4.63 Unassigned Fund Balance	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
				Restricted:			
				4.25 Bond Refunding	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$0	\$0	\$0
				Unassigned:			
				4.63 Unassigned Fund Balance	-\$765	-\$765	\$0
04 COMMUNITY SERVICE							
Total Revenue	\$1,678,657	\$1,678,656	\$1				
Total Expenditures	\$1,815,423	\$1,815,423	\$0				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$2,939	\$2,939	\$0				
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$0	-\$84,953	\$84,953				
4.32 E.C.F.E.	\$161,770	\$161,770	\$0				
4.44 School Readiness	\$25,034	\$25,034	\$0				
4.47 Adult Basic Education	\$0	\$0	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	-\$84,953	\$0	-\$84,953				

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Pass-Through Minnesota Department of Education:		
Child Nutrition Cluster:		
National School Breakfast Program	10.553	\$ 276,130
National School Lunch Program	10.555	1,184,714
Summer Food Program	10.559	<u>64,010</u>
Total Child Nutrition Cluster		\$ 1,524,854
Child and Adult Care	10.558	22,844
<u>U. S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	9,223
Title VII - Indian Education	84.060A	216,048
Pass-Through Minnesota Department of Education:		
Adult Basic Education	84.002	4,224
ARRA- Education Jobs Fund	84.410	870,612
Title II Part A	84.367	299,933
Title I Part A Cluster:		
Title I Part A	84.010	1,434,422
Title I (N & D)	84.010	<u>234,383</u>
Total Title I Part A Cluster		1,668,805
Special Education Cluster:		
Special Education Part B Sec 611 Regular Allocation	84.027	1,000,242
Part B- Coordinated Early Intervening Services (CEIS)	84.027	10,000
CIMP	84.027	8,720
Special Education - Part B Section 619 Preschool Regular	84.173	33,325
Part B - Preschool Incentive Personnel Development	84.173	<u>1,214</u>
Total Special Education Cluster		1,053,501
Special Education - Part C IEIC, Ages 0-2	84.181	23,620
Title IV Part B 21st Century Community Learning Centers	84.287	239,923
Title VI, Part B Rural and Low-Income Schools	84.358	97,528
<u>U.S. Department of Health and Human Safety</u>		
Direct Programs:		
Early Retirement Reinsurance Program	93.546	94,585
<u>Received from Other Pass Through Entities</u>		
Carl Perkins Career and Technical Education	84.243	13,990
Carl Perkins Career and Technical Reserve	84.243	25,112
IDEA Part B - Discretionary Low Incidence	84.027	36,451
Johnson O'Malley - Red Lake	15.130	15,460
Johnson O'Malley - LLBO	15.130	<u>6,164</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 6,222,877</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 31 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 - Child Nutrition Cluster

Cash receipts from the U. S. Department of Agriculture through the Minnesota Department of Education are included in revenues from federal sources. It is assumed that federal funds are expended first.

NOTE 3 - Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE 4 - Matching Requirements

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE 5 – Pass-through Entities

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2012
(Unaudited)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Property Tax Levies										
General Referendum	\$ 2,753,636	\$ 2,735,198	\$ 2,737,078	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688	\$ 1,784,861	\$ 1,414,701	\$ 1,234,142	\$ -
General Maintenance	1,656,050	1,626,433	1,973,806	1,727,879	1,760,443	1,363,836	931,211	184,055	-	676,177
Community Service	388,022	360,331	351,091	359,408	311,974	351,150	318,539	294,045	277,550	256,749
Debt Redemption	3,627,350	4,274,766	3,944,315	4,141,766	4,181,544	4,421,541	4,576,783	5,092,734	4,841,543	4,009,817
OPEB Pension Debt	571,797	-	-	-	-	-	-	-	-	-
Total Property Tax Levies	<u>\$ 8,996,855</u>	<u>\$ 8,996,728</u>	<u>\$ 9,006,290</u>	<u>\$ 8,838,514</u>	<u>\$ 8,618,213</u>	<u>\$ 8,194,215</u>	<u>\$ 7,611,394</u>	<u>\$ 6,985,535</u>	<u>\$ 6,353,235</u>	<u>\$ 4,942,743</u>

Taxable Net Tax Capacity										
Beltrami County	\$ 26,203,618	\$ 26,682,043	\$ 26,368,601	\$ 25,601,517	\$ 24,068,019	\$ 21,976,481	\$ 18,598,643	\$ 16,487,326	\$ 14,341,799	\$ 12,706,895
Hubbard County	3,081,085	3,270,691	3,460,714	3,336,329	3,086,630	2,579,451	2,261,810	1,936,573	1,636,890	1,439,075
Total Net Tax Capacity	<u>\$ 29,284,703</u>	<u>\$ 29,952,734</u>	<u>\$ 29,829,315</u>	<u>\$ 28,937,846</u>	<u>\$ 27,154,649</u>	<u>\$ 24,555,932</u>	<u>\$ 20,860,453</u>	<u>\$ 18,423,899</u>	<u>\$ 15,978,689</u>	<u>\$ 14,145,970</u>
Property Tax Rate	21.293%	20.880%	20.993%	21.499%	23.045%	24.990%	27.931%	30.237%	32.037%	34.941%
Referendum Market Values										
Beltrami County	\$ 2,010,513,459	\$ 1,939,767,425	\$ 1,929,380,345	\$ 1,925,650,921	\$ 1,838,553,655	\$ 1,702,738,595	\$ 1,455,618,295	\$ 1,284,626,487	\$ 1,113,462,409	
Hubbard County	209,981,645	198,776,950	208,294,180	224,374,220	213,065,100	182,281,101	161,103,300	137,755,102	117,601,726	
Total Referendum Market Values	<u>\$ 2,220,495,104</u>	<u>\$ 2,138,544,375</u>	<u>\$ 2,137,674,525</u>	<u>\$ 2,150,025,141</u>	<u>\$ 2,051,618,755</u>	<u>\$ 1,885,019,696</u>	<u>\$ 1,616,721,595</u>	<u>\$ 1,422,381,589</u>	<u>\$ 1,231,064,135</u>	
Referendum Rate	0.12401%	0.12790%	0.12804%	0.12137%	0.11538%	0.10916%	0.11040%	0.09946%	0.10025%	

Students Served (Weighted ADM's)										
Residents	6,220.03	6,104.63	6,030.05	5,859.57	5,911.40	5,916.96	5,914.56	5,939.23	5,968.87	6,124.68
Nonresidents in District										
Tuition	75.20	64.80	80.36	82.14	82.41	122.70	127.12	150.48	141.77	158.38
Enrollment Options	316.04	347.14	309.93	280.02	236.68	245.72	222.65	213.44	227.56	239.24
Ineligible	3.10	2.40	1.53	0.65	0.60	0.62	3.53	2.22	2.21	2.33
Shared Aid	9.00	7.91	8.47	9.27	14.39	12.51	12.72	14.46	17.43	13.86
Shared Time Tuition	0.13	0.20	0.10	0.11	0.21	-	-	-	0.16	0.42
Adults	-	-	-	6.54	-	-	-	-	-	5.36
Residents Outside District										
Tuition	(22.90)	(16.59)	(20.18)	(27.21)	(24.59)	(35.38)	(33.19)	(27.15)	(26.65)	(20.07)
Charter	(448.18)	(443.20)	(430.80)	(442.59)	(428.10)	(433.15)	(398.82)	(414.37)	(406.55)	(172.46)
Enrollment Options	(426.35)	(411.11)	(382.28)	(363.27)	(341.11)	(369.75)	(397.26)	(402.28)	(396.31)	(407.63)
Total Students Served	<u>5,726.07</u>	<u>5,656.18</u>	<u>5,597.18</u>	<u>5,405.23</u>	<u>5,451.89</u>	<u>5,460.23</u>	<u>5,451.31</u>	<u>5,476.03</u>	<u>5,528.49</u>	<u>5,944.11</u>
Adjusted Weighted ADM's	5,661.54	5,597.46	5,526.90	5,333.73	5,378.87	5,359.78	5,341.13	5,336.02	5,393.57	5,783.83
Resident ADM's	5,411.06	5,319.43	5,238.58	5,101.45	5,104.55	5,108.15	5,101.53	5,121.77	5,158.95	5,295.49



MILLER MCDONALD, INC.
 Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**REPORT ON COMPLIANCE BASED ON AN AUDIT
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE
 FOR POLITICAL SUBDIVISIONS**

**The Board of Education
 Independent School District No. 31
 Bemidji, 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. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2012, which collectively comprise Independent School District No. 31, Bemidji, Minnesota’s basic financial statements and have issued our report thereon dated December 15, 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 State Auditor pursuant to Minnesota Statutes 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our test indicate that for the items tested, Independent School District No. 31, Bemidji, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the School Board, management of the District, 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.

Miller McDonald, Inc.

**December 15, 2012
 Bemidji, Minnesota**



MILLER MCDONALD, INC.
 Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**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***

**The Board of Education
 Independent School District No. 31
 Bemidji, 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. 31, Bemidji, Minnesota as of and for the year ended June 30, 2012, which collectively comprise Independent School District No. 31, Bemidji, Minnesota's basic financial statements and have issued our report thereon dated December 15, 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

Management of Independent School District No. 31, Bemidji, Minnesota is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Independent School District No. 31, Bemidji, Minnesota'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 effectiveness of Independent School District No. 31, Bemidji, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31, Bemidji, Minnesota's internal control over financial reporting.

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

Our consideration of 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Independent School District No. 31
Bemidji, Minnesota**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 31, Bemidji, Minnesota'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School Board, management of the District, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

December 15, 2012
Bemidji, Minnesota



MILLER MCDONALD, INC.
Certified Public Accountants
 513 Beltrami Avenue
 P.O. Box 486
 Bemidji, MN 56619
 (218) 751 - 6300
 Fax (218) 751 - 0782
 www.millermcdonald.com

**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**

**The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota**

Compliance

We have audited Independent School District No. 31, Bemidji, Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 31, Bemidji, Minnesota's major federal programs for the year ended June 30, 2012. Independent School District No. 31, Bemidji, Minnesota's major federal programs are identified in the summary of auditors' 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. 31, Bemidji, Minnesota's management. Our responsibility is to express an opinion on Independent School District No. 31, Bemidji, Minnesota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 31, Bemidji, Minnesota'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. 31, Bemidji, Minnesota's compliance with those requirements.

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, Independent School District No. 31, Bemidji, Minnesota, did not comply with requirements regarding allowable costs/costs principles that are applicable to its Indian Elementary and Secondary School Assistance grant. Compliance with such requirements is necessary, in our opinion, for Independent School District No. 31, Bemidji, Minnesota, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Independent School District No. 31, Bemidji, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Independent School District No. 31, Bemidji, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 31, Bemidji, Minnesota's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31, Bemidji, Minnesota's internal control over compliance.

Our consideration of 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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a significant deficiency.

Independent School District No. 31, Bemidji, Minnesota's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Independent School District No. 31, Bemidji, Minnesota's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the management, the School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

December 15, 2012
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

- 1.) An unqualified report was issued.
- 2.) No significant deficiency in internal control over financial reporting was reported in the audit of the financial statements, nor was a deficiency identified to be a material weakness.
- 3.) The audit did not disclose any noncompliance which was material to the financial statements.
- 4.) One significant deficiency in internal control over compliance relating to the audit of the major federal award programs were reported in the *Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*. The significant deficiency is not reported as a material weakness.
- 5.) A qualified report on compliance for a major federal award program was issued.
- 6.) A finding was disclosed that is required to be reported in accordance with Section .510(a) of OMB Circular A-133.
- 7.) Major programs:

Title VII Indian Education	CFDA No. 84.060A
Clustered Programs:	
Title I Part A	CFDA No. 84.010
Title II (N & D)	CFDA No. 84.010
ARRA- Education Jobs Fund	CFDA No. 84.410
- 8.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 qualified as a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

INTERNAL CONTROL

None

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control

Finding 2012-1 – Indian Elementary and Secondary School Assistance Grant, CFDA 84.060 – Inadequate Support of Salaries and Wages.

Condition

The District did not compile adequate and proper documentation in support of wages and benefits paid to employees working under the Indian Elementary and Secondary School Assistance federal award program (CFDA 84.060) In accordance with OMB Circular A-87, Attachment B, paragraph 8 (h), depending on whether an employee works on a single Federal award or multiple awards, salaries and wages must be supported by either periodic certifications or personnel activity reports or equivalent documentation.

Criteria

The District should have controls in place to insure that Personnel Activity Reports or equivalent documentation is being prepared in a timely manner for each employee working on any activity supported by a Federal Award.

Effect

The impact on the financial statements is that the potential exists that a material misstatement could exist in the financial statements.

Cause

The Program Director did not obtain certifications or signed Personnel Activity Reports for adequate documentation of salaries and wages for employees who are compensated by this program.

Recommendation

We recommend that management become knowledgeable in compliance standards and requirements for Federal awards and establish policies and procedures that adequately assure the District's compliance with those standards and requirements.

Management's Response – Corrective Action Plan

A. Explanation of Disagreement with Audit Finding

The District does not disagree with the finding.

B. Actions Planned in Response to Finding

The District will direct Indian Ed Coordinator to complete Personal Activity Reports (PAR) for CFDA 84.060.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

C. Official Responsible for Ensuring CAP Implementation

Chris Leinen, Director of Business Services.

D. Planned Completion of CAP

On or before June 30, 2013.

E. Plan to Monitor Completion of CAP

Request copies of PARS to District office.

Questioned Costs

None