



Executive Summary
June 30, 2010

Independent School District No. 152 Moorhead Area Public Schools

Purpose of the Executive Summary

The District receives audited financial statements each year, however the document is long and readers may find it difficult to read and understand. In an effort to help facilitate understanding we have put together an executive summary containing summarized information from the audited financial statements, as well as graphs and ratios. We believe the School Board, management, and citizens of the District will have a clearer picture of the financial condition of the District by reading this summary. This is not a required report and we offer no opinion on the executive summary.

We hope this executive summary encourages discussion of the District's financial condition and to:

- Alert the School Board and management to financial condition trends, both favorable and unfavorable.
- Put the District's financial condition in perspective by compiling data for several years.

There are strengths and limitations to using this approach to evaluate financial condition. Strengths include:

- District data was compiled under consistent accounting principles and audited under Government Auditing Standards.
- Analysis was performed independent of District management and offers a new perspective of the District's financial condition.

Limitations include:

- The analysis is historical rather than a projection of future financial condition.
- The analysis provides a broad overview rather than detailed analysis.
- The analysis does not attempt to measure level and quality of services.

About Eide Bailly

Founded in 1917, Eide Bailly is a top 25 CPA firm in the nation, with 19 service centers in nine states. Our clients benefit from local, personal service while enjoying access to nearly 1,200 professionals with diverse skill sets and experiences. We truly care about our clients' successes and work hard to help them reach their goals. The Firm has built strong industry and service teams in order to surround our clients with relevant and valuable services. Our focused industries include:

- Ag Producers
- Construction
- Dealerships
- Financial Institutions
- Government
- Health Care
- Insurance
- Manufacturing
- Non-Profit
- Oil & Gas
- Real Estate
- Renewable Energy
- Utilities

Eide Bailly's Government industry has over 40 years experience serving school districts, and more than 120 professionals dedicated to government clients.

Audit Expectation Gap

The expectation gap is the gap between the auditor's actual standard of performance and various expectations of auditor's performance by the public. In simpler terms, the gap is the difference between what auditors actually do and what the public thinks they do. When referring to auditors in this discussion, we are referring to certified public accountants (CPAs) hired to perform financial statement audits.

What do many members of the public expect auditors to do?

- Test every transaction
- Accept prime responsibility for the financial statements
- Prepare the financial statements
- Certify the financial statements
- Detect fraud
- Guarantee the accuracy of the financial statements
- Give early warning of possible business failure

The reality, according to the public accounting profession (CPAs) is that¹:

- Auditors are only required to test selected transactions. The cost of an audit that tested every transaction would be prohibitive.
- Financial statements are the responsibility of management. Auditors give their professional opinion on whether or not the statements are free from material misstatement.
- Although management may request that the auditors prepare the financial statements, the statements are the responsibility of management.
- Audit only provide reasonable assurance that financial statements are free from material misstatement.
- An audit does not guarantee that fraud will be detected. Most frauds are not discovered by the external auditors. Auditors are required to have an attitude of professional skepticism when planning and performing the audit.
- Auditors give their professional opinion on the financial statements. They do not guarantee anything.
- Although auditors may give management a "heads up" on possible business failure, that is not what CPAs are hired to do in a financial statement audit. The analysis of the financial information in the statements is the responsibility of the various users of those statements such as creditors and investors.

¹ CPA Journal, *The Past and Future of Reasonable Assurance*, November 2005

Audit Opinion

The District received a “clean” audit opinion. What does that really mean? The audit opinion is a brief report that appears with the financial statements. A clean audit opinion is more precisely referred to as an unqualified opinion. An *unqualified opinion* means that the financial statements have been prepared using accounting principles generally accepted in the United States of America (GAAP), do not contain material misstatements, and are fairly presented.

Some readers of financial statements with an unqualified (clean) audit opinion believe that the auditors are signifying that the organization has a financial clean bill of health. They may believe the auditors are indicating that there is no fraud, that the organization is using its resources effectively and efficiently, and that the organization is in compliance with all laws and regulations. The auditor’s report (audit opinion) on a financial statement audit is merely the auditor’s professional opinion, based on audit work, on whether the financial statements were prepared in accordance with GAAP and are free from material misstatement.

Audit of Federal Funds

All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act. A single audit is intended to provide a cost-effective audit in that one audit is conducted in lieu of multiple audits of individual programs. During 2010, the District expended approximately \$7.8M in federal awards.

The District received an unqualified opinion on compliance for the major federal award programs report.

INDEPENDENT SCHOOL DISTRICT NO. 152
STATEMENTS OF NET ASSETS – ALL FUNDS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Cash and investments	\$ 6,623,570	\$ 13,733,443	\$ 12,204,146
Cash held with fiscal agent	42,050,899	42,076,343	42,101,787
Receivables *	21,717,370	11,551,968	9,635,569
Other	9,299,611	9,864,729	36,740
Capital assets	<u>72,481,137</u>	<u>74,227,187</u>	<u>75,891,258</u>
Total assets	<u>\$ 152,172,587</u>	<u>\$ 151,453,670</u>	<u>\$ 139,869,500</u>
	0.5%		
	Increase		
LIABILITIES AND NET ASSETS			
LIABILITIES			
Salaries and accounts payable	\$ 5,303,129	\$ 5,252,103	\$ 5,480,745
Unearned revenue	138,018	171,136	134,033
Other current liabilities	14,397,197	13,214,900	9,945,507
Long-term liabilities due within one year	4,155,853	3,939,027	5,161,216
Long-term liabilities due in more than one year	<u>100,491,155</u>	<u>104,192,781</u>	<u>98,585,825</u>
Total liabilities	<u>124,485,352</u>	<u>126,769,947</u>	<u>119,307,326</u>
	-1.8%		
	Decrease		
NET ASSETS			
Invested in capital assets, net of related debt	22,771,137	21,137,187	19,586,258
Restricted	44,760,420	44,497,728	44,308,724
Unrestricted	<u>(39,844,322)</u>	<u>(40,951,192)</u>	<u>(43,332,808)</u>
Total net assets	<u>27,687,235</u>	<u>24,683,723</u>	<u>20,562,174</u>
	12.2%		
	Increase		
Total liabilities and net assets	<u>\$ 152,172,587</u>	<u>\$ 151,453,670</u>	<u>\$ 139,869,500</u>

* A portion of the receivables are for general education aid. Below is an analysis of the general education aid receivable and revenue for the past five years.

	<u>General Education Aid</u>		
	<u>Receivable</u>	<u>Revenue</u>	<u>Receivable as % of Revenue</u>
6/30/06	2,586,742	32,589,808	7.9%
6/30/07	3,016,922	34,111,978	8.8%
6/30/08	1,716,221	35,198,352	4.9%
6/30/09	3,335,134	35,791,088	9.3%
6/30/10	8,979,563	32,430,924	27.7%

In the previous three years approximately 90% of general education aid payments were made in the current fiscal year, with the remaining 10% being paid in the subsequent fiscal year. For FY10 that ratio changed to 73-27. For FY11 it will be 70-30 and for FY12 it is currently planned to be reinstated back to 90-10.

Liquidity

Liquidity refers to an organization's ability to pay short-term financial obligations. Liquidity involves determining the level of cash on hand and in the bank and other assets that can be easily converted to cash. This cash position is compared to accounts payable and other current liabilities as well as that portion of long-term liabilities that are due within one year.

The formula for calculating the liquidity ratio is:

$$\frac{\text{Cash and cash equivalents}}{\text{Accounts payable and other current liabilities} + \text{Long-term liabilities due within one year}}$$

A lower ratio of this indicator indicates a declining ability to pay short-term debt.

<u>Year</u>	<u>Liquidity Ratio</u>
6/30/06	0.6
6/30/07	0.6
6/30/08	0.6
6/30/09	0.6
6/30/10	0.3

Liquidity is a controversial financial indicator according to many analysts. Because the ratio can change daily according to receipt of cash, any analysis of the liquidity ratio must be done at the same time of the year for a meaningful comparison.² This comparison was done with the year-end cash and liability position.

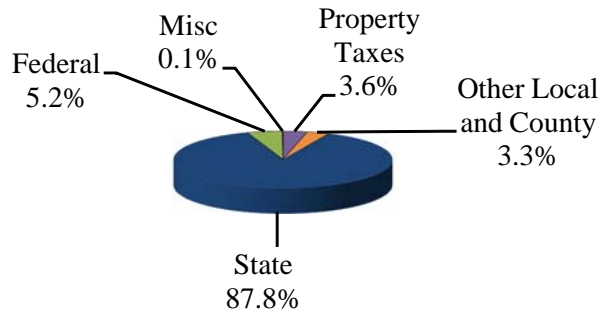
² *Evaluating Financial Condition: a Handbook for Local Governments*, page 71

INDEPENDENT SCHOOL DISTRICT NO. 152
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – GENERAL FUND

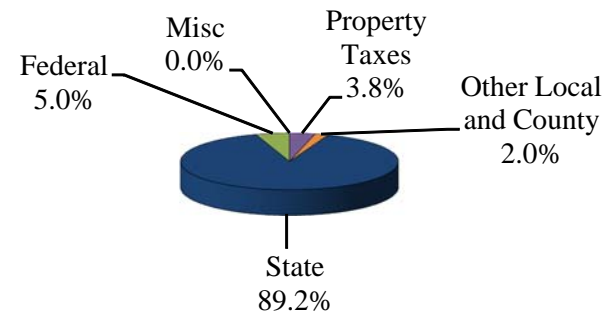
	Original Budget	Final Budget	2010 Actual	Variance With Final Budget	2009 Actual	2008 Actual
REVENUES						
State sources	\$ 40,409,097	\$ 40,491,973	\$ 39,764,160	\$ (727,813)	\$ 44,565,250	\$ 42,629,959
Local levies	2,003,253	1,940,300	1,922,246	(18,054)	1,886,821	1,744,800
Federal sources	7,737,110	6,787,215	7,166,354	379,139	2,388,519	2,513,968
Other	1,123,321	1,008,032	860,608	(147,424)	1,107,044	1,664,756
Total revenues	51,272,781	50,227,520	49,713,368	(514,152)	49,947,634	48,553,483
			-0.5% Decrease	-1.0% Negative		
EXPENDITURES						
Regular instruction	21,801,685	21,656,094	21,732,755	(76,661)	22,226,725	22,307,953
OPEB health insurance	(756,242)	(756,242)	(715,900)	(40,342)	(753,861)	-
District and school administration and support services	3,494,074	3,534,674	3,124,287	410,387	3,604,830	3,521,391
Special education instruction	13,084,121	11,220,059	12,323,508	(1,103,449)	11,704,159	11,870,354
Instructional and pupil support services	7,698,243	7,843,881	7,255,728	588,153	7,690,709	7,453,212
Sites and buildings	4,855,164	4,573,702	4,441,641	132,061	4,816,561	5,037,054
Other	715,745	626,433	573,283	53,150	692,707	615,858
Total expenditures	50,892,790	48,698,601	48,735,302	(36,701)	49,981,830	50,805,822
			-2.5% Decrease	-0.1% Negative		
REVENUES OVER (UNDER) EXPENDITURES	379,991	1,528,919	978,066	(550,853)	(34,196)	(2,252,339)
OTHER FINANCING SOURCES (USES)						
Issuance of OPEB bonds	-	-	-	-	10,300,000	-
Transfer of OPEB bonds to trust fund	-	-	-	-	(10,300,000)	-
Other	-	17,570	17,570	-	(102,980)	54,050
Total other financing sources (uses)	-	17,570	17,570	-	(102,980)	54,050
NET CHANGE IN FUND BALANCE	379,991	1,546,489	995,636	(550,853)	(137,176)	(2,198,289)
FUND BALANCE, BEGINNING OF YEAR	6,177,187	6,177,187	6,177,187	-	6,314,363	8,512,652
FUND BALANCE, END OF YEAR						
Reserved	-	-	465,379	465,379	458,819	629,521
Unreserved - designated	-	-	2,726,377	2,726,377	2,758,668	1,811,532
Unreserved - undesignated	6,557,178	7,723,676	3,981,067	(3,742,609)	2,959,700	3,873,310
	\$ 6,557,178	\$ 7,723,676	\$ 7,172,823	\$ (550,853)	\$ 6,177,187	\$ 6,314,363

INDEPENDENT SCHOOL DISTRICT NO. 152
GENERAL FUND REVENUES BY SOURCE

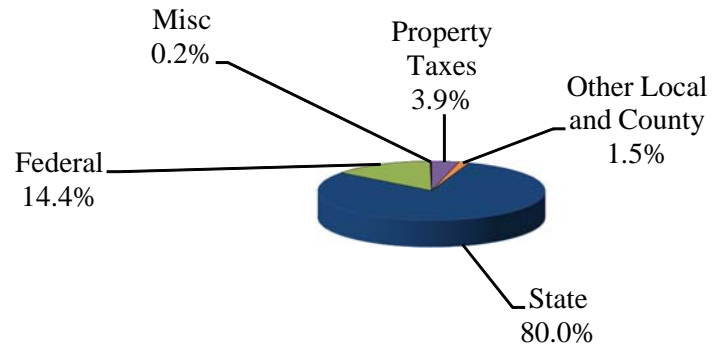
2007-2008



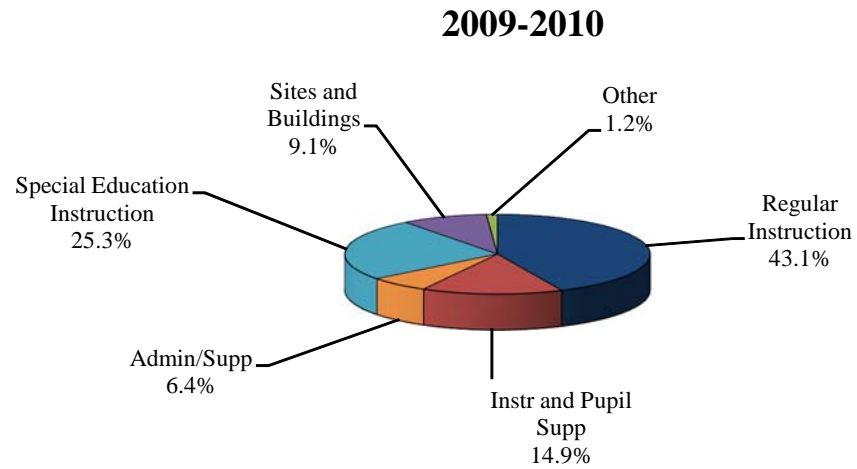
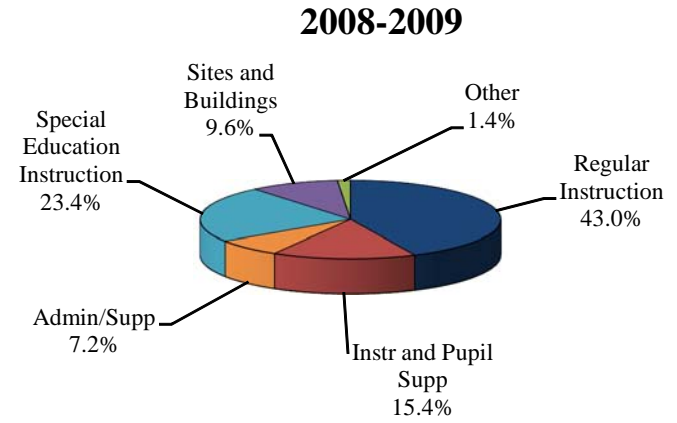
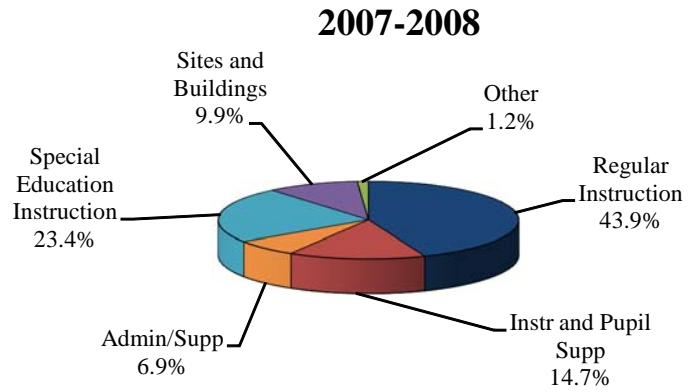
2008-2009



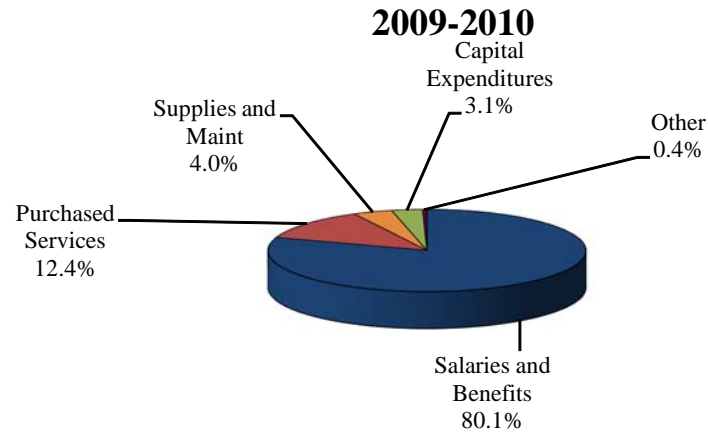
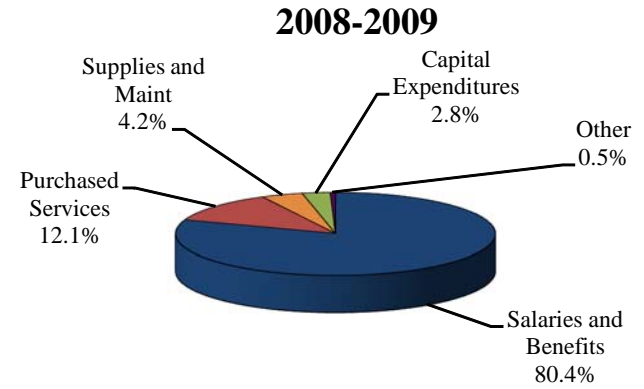
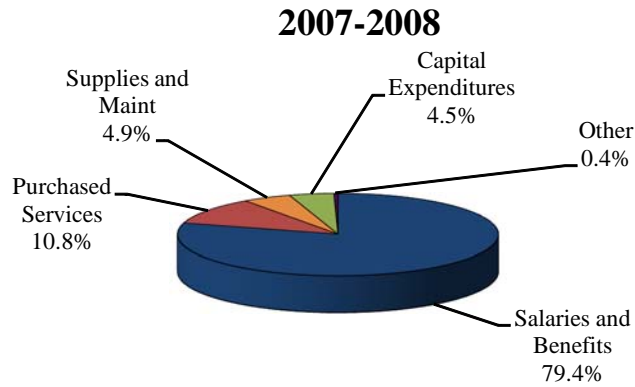
2009-2010



INDEPENDENT SCHOOL DISTRICT NO. 152
GENERAL FUND EXPENDITURES BY PROGRAM



INDEPENDENT SCHOOL DISTRICT NO. 152
GENERAL FUND EXPENDITURES BY OBJECT



INDEPENDENT SCHOOL DISTRICT NO. 152
CHANGES IN FUND BALANCES – GENERAL FUND

	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance End of Year
Reserved for deferred maintenance	\$ 205,994	\$ 121,737	\$ 327,731
Reserved for health and safety	(367,851)	262,981	(104,870)
Reserved for severance pay	89,446	(89,446)	-
Reserved for operating capital	533,263	(221,506)	311,757
Reserved for safe schools	(2,033)	(67,206)	(69,239)
Unreserved - designated for severance pay	2,758,668	(32,291)	2,726,377
Unreserved - undesignated	<u>2,959,700</u>	<u>1,021,367</u>	<u>3,981,067</u>
	<u>\$ 6,177,187</u>	<u>\$ 995,636</u>	<u>\$ 7,172,823</u>

The General Fund is used to account for all revenue and expenditures of the school district not accounted for elsewhere. It is used to account for educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund.

Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance is further divided into reserved, unreserved, and designated categories. Reserved fund balance is legally restricted and cannot be appropriated for other spending. Designated fund balance is intended for a specific activity but is not legally restricted. Unreserved, undesignated fund balance can be thought of as reserves or a “rainy day” fund.

A positive fund balance:

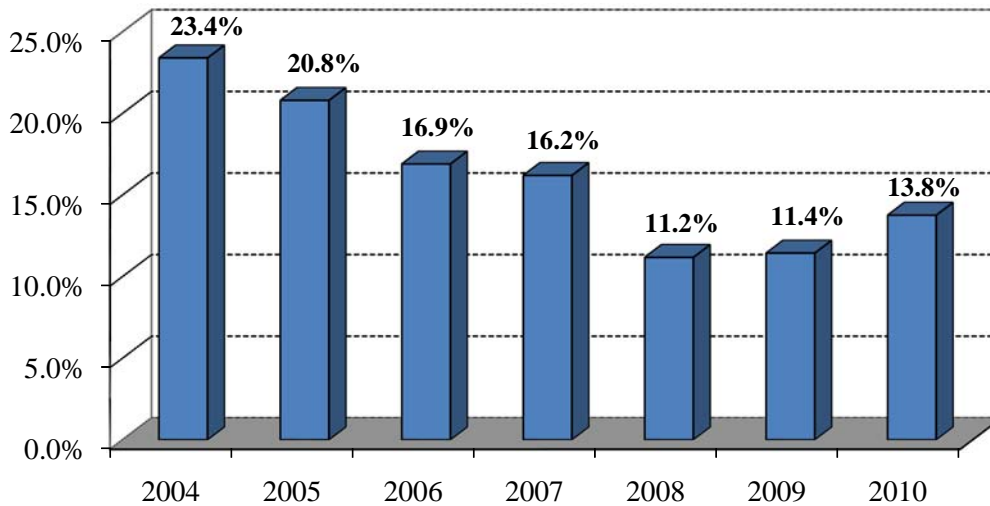
- Contributes to a favorable bond rating
- Produces investment income
- Provides a source of working capital to meet cash flow needs
- Offers a cushion for unexpected expenditures or revenue shortfalls

CHANGES IN FUND BALANCES – GENERAL FUND

The Government Finance Officers Association (GFOA) recommends, at a minimum, that governments maintain unreserved fund balance in their general fund of no less than two months (16.67 percent) of regular general fund operating expenditures.³

The State of Minnesota Office of the State Auditor (OSA) recommends that at year-end local governments maintain an unreserved fund balance in their general fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures.⁴

The District's unreserved fund balance as a percentage of expenditures in the General Fund for the last seven years is as follows:



It is School Board Policy to maintain an unappropriated fund balance of at least 25% of the District's General Fund operating budget. When the General Fund unappropriated balance is projected to decrease below 17% of the General Fund budget, the District shall initiate one or more measures to ensure that the year-end General Fund unappropriated balance for the budget year in question does not fall below 17%.⁵

The following are some fund balance amounts for various benchmarking levels:

1 month of expenditures (8%)	\$ 4,061,275
2 months of expenditures (17%)	8,122,550
3 months of expenditures (25%)	12,183,826
4 months of expenditures (33%)	16,245,101
5 months of expenditures (42%)	20,306,376
6 months of expenditures (50%)	24,367,651

³ *Appropriate Level of Unreserved Fund Balance in the General Fund*, GFOA Best Practice, 2009

⁴ *Statement of Position, Fund Balance for Local Governments*, OSA recommended practice, 2007

⁵ *Moorhead Area Public Schools, Board Policies, Section 800, Code 802*, adopted 1/26/2009

INDEPENDENT SCHOOL DISTRICT NO. 152
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
FOOD SERVICE FUND

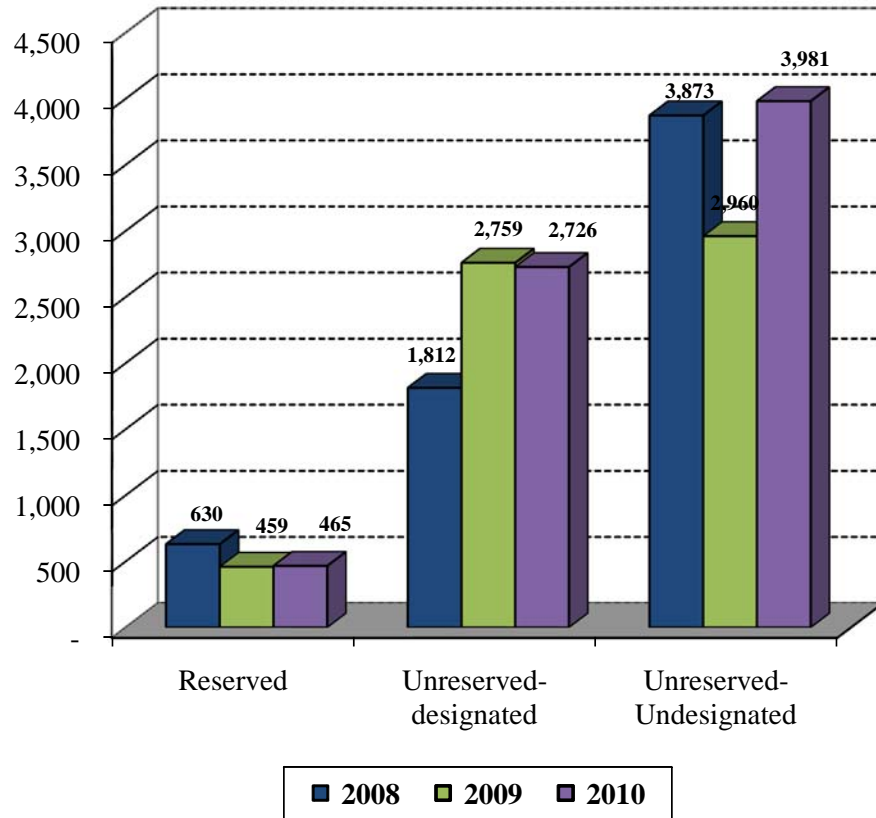
	2010	2009	2008
	Actual	Actual	Actual
REVENUES			
Sale of food	\$ 1,100,731	\$ 897,814	\$ 874,068
Federal sources	955,171	824,170	801,025
State sources	146,531	113,970	127,995
Other	1,582	16,353	62,540
Total revenues	<u>2,204,015</u>	<u>1,852,307</u>	<u>1,865,628</u>
	19.0%		
	Increase		
EXPENDITURES			
Food costs and supplies	1,196,644	1,077,003	1,116,955
Salaries and benefits	526,073	532,558	529,937
Other	354,488	343,068	288,533
Total expenditures	<u>2,077,205</u>	<u>1,952,629</u>	<u>1,935,425</u>
	6.4%		
	Increase		
NET CHANGE IN FUND BALANCE	126,810	(100,322)	(69,797)
FUND BALANCE, BEGINNING OF YEAR	<u>354,128</u>	<u>454,450</u>	<u>524,247</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 480,938</u></u>	<u><u>\$ 354,128</u></u>	<u><u>\$ 454,450</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 152
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
COMMUNITY SERVICE FUND

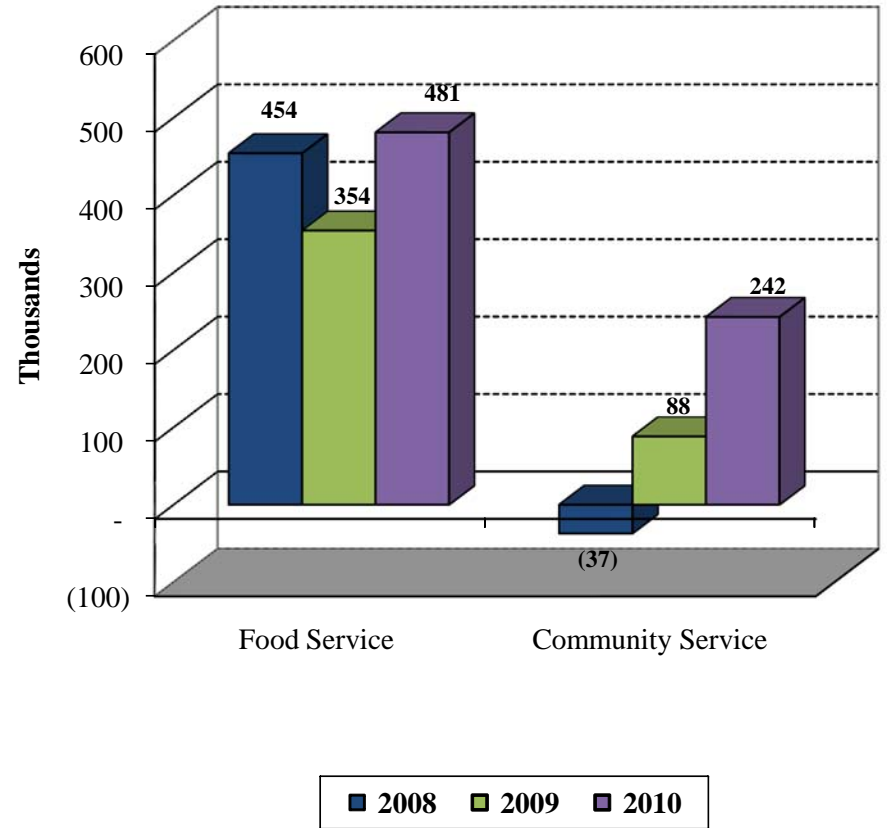
	2010	2009	2008
	Actual	Actual	Actual
REVENUES			
Tuition, fees, and other	\$ 506,703	\$ 416,415	\$ 517,077
State aid	778,700	815,769	745,350
Local levies	276,344	231,162	226,548
Total revenues	<u>1,561,747</u>	<u>1,463,346</u>	<u>1,488,975</u>
	6.7%		
	Increase		
EXPENDITURES			
Salaries and benefits	1,092,135	1,024,060	1,130,746
Purchased services	158,341	167,636	223,869
Other	157,022	146,883	137,589
Total expenditures	<u>1,407,498</u>	<u>1,338,579</u>	<u>1,492,204</u>
	5.1%		
	Increase		
NET CHANGE IN FUND BALANCE	154,249	124,767	(3,229)
FUND BALANCE, BEGINNING OF YEAR	<u>88,228</u>	<u>(36,539)</u>	<u>(33,310)</u>
FUND BALANCE, END OF YEAR			
Reserved for early childhood and family education	74,225	75,499	58,868
Reserved for community education	96,808	(7,897)	(309,341)
Reserved for school readiness	25,556	20,626	9,253
Unreserved	45,888	-	204,681
	<u>\$ 242,477</u>	<u>\$ 88,228</u>	<u>\$ (36,539)</u>

INDEPENDENT SCHOOL DISTRICT NO. 152
ENDING FUND BALANCES – THOUSANDS (000'S)

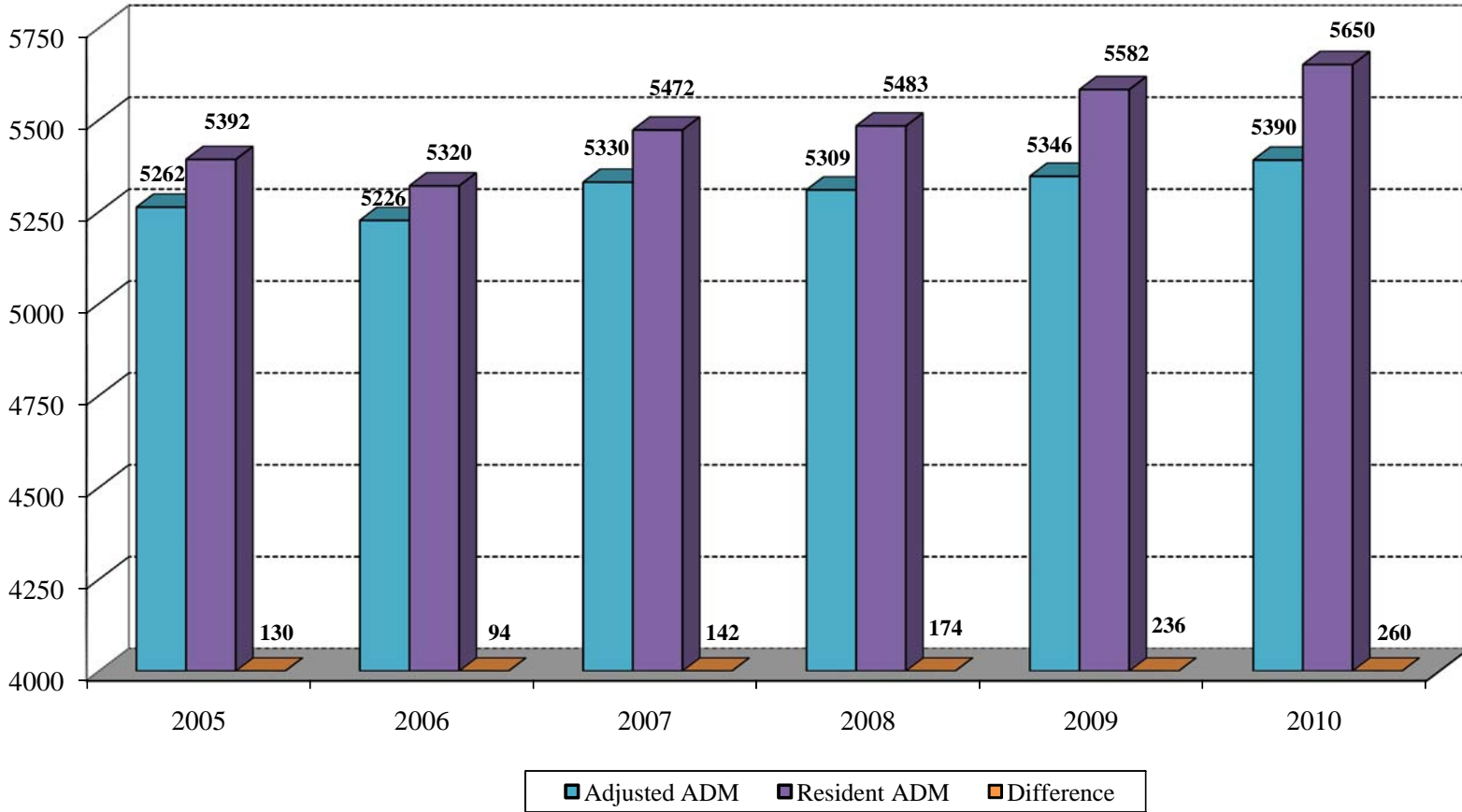
GENERAL FUND



SPECIAL REVENUE FUNDS



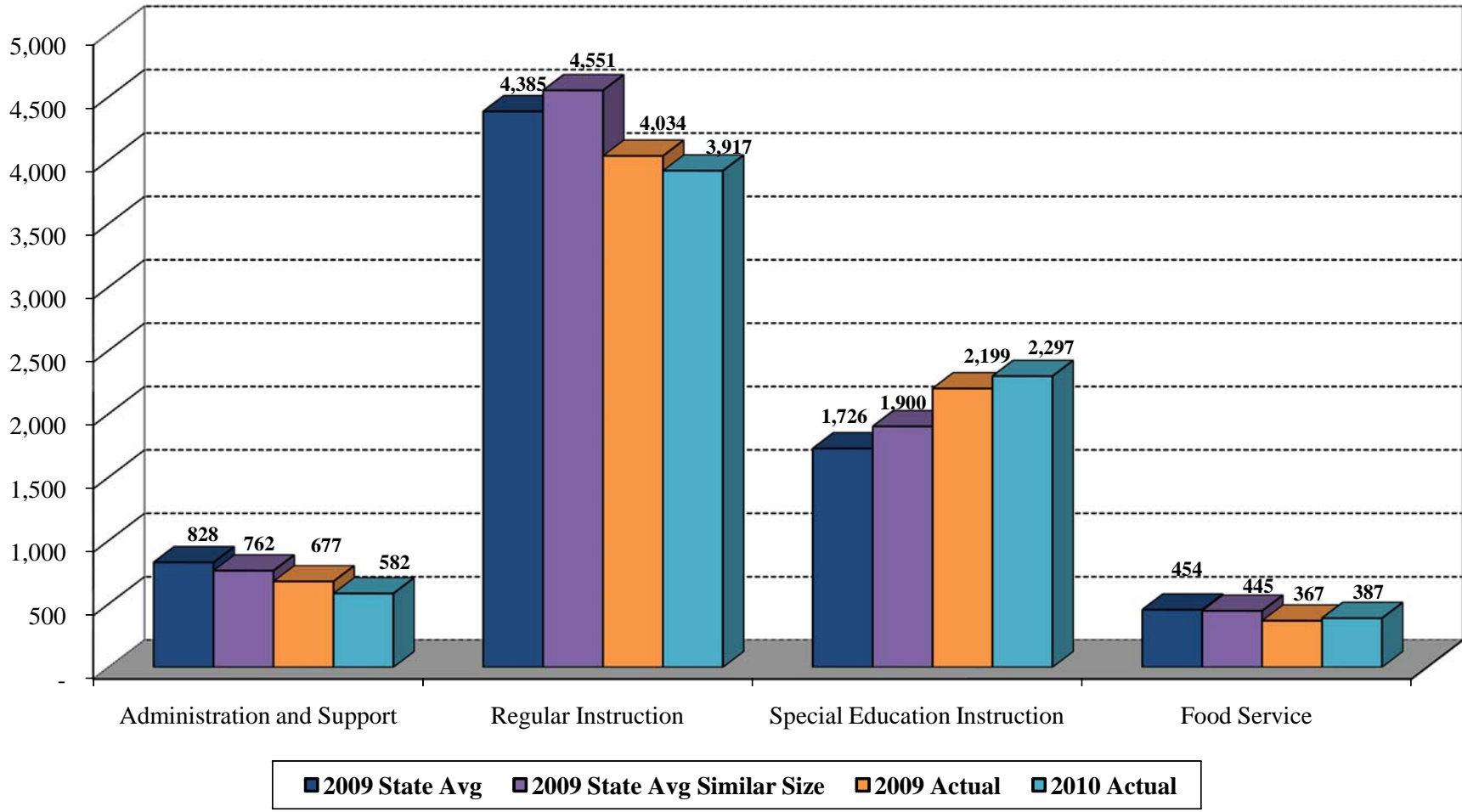
INDEPENDENT SCHOOL DISTRICT NO. 152
AVERAGE DAILY MEMBERSHIP



Adjusted ADM is students enrolled in the District.

Resident ADM is all students residing in the District regardless of where they attend school.

INDEPENDENT SCHOOL DISTRICT NO. 152
COST PER ADM SERVED (EXCLUDING OPEB BOND ISSUANCES IN 2009)



Legislative Update from the Minnesota Department of Education

- \$51 per pupil unit transfer from operating capital to unreserved will not be allowed after FY10
- \$500 million reduction in general education aid for FY10 (replaced with federal ARRA funds) was one-time – general education aid will be fully restored for FY11
- Waiver of 2% staff development set-aside is retained for FY10 and FY11
- State has a projected \$5.8 billion shortfall for FY12-13 biennium
 - significant increase in general education funding is not likely
 - running out of shift opportunities – hard cuts and / or tax increases are more likely

Governmental Accounting Standards Board (GASB) Update

GASB has issued statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,” a statement not yet implemented by the District. Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. This statement will be implemented at the District in the year ending June 30, 2011.

The Minnesota Department of Education has formed a GASB 54 Subcommittee to discuss the implementation of GASB Statement No. 54. The following update was in the July 2010 School Business Bulletin:

“This Statement will not affect the calculation of fund balances; however, it will improve the usefulness of fund balance information as stated in the financial statements. Governing bodies will establish policies outlining the order in which resources are to be expended to meet financial obligations. This Statement establishes the following fund balance components: Nonspendable; Restricted; Committed; Assigned and Unassigned. The GASB 54 Subcommittee and Program Finance are in the initial stages of researching the Statement’s impact on current Minnesota Legislation, federal reporting, school policies, financial reports and the UFARS manual.”