

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**BOARD OF EDUCATION OF THE  
CITY OF FARGO  
FARGO, NORTH DAKOTA**

**FOR THE YEAR ENDED JUNE 30, 2012**



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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

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For the Year Ended June 30, 2012

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

For the Year Ended June 30, 2012

SCHOOL BOARD

Jim Johnson	President
John Strand	Vice-President
Rusty Papachek	Board Member
Kris Wallman	Board Member
Dinah Goldenberg	Board Member
Linda Boyd	Board Member
Paul Meyers	Board Member
Robin Nelson	Board Member
Rick Steen	Board Member

ADMINISTRATION

Dr. Rick Buresh	Superintendent
Dr. Robert Grosz	Assistant Superintendent - Instruction
Nancy Jordheim	Assistant Superintendent – Human Resources
Broc Lietz	Business Manager

**STATE AUDITOR**

ROBERT R. PETERSON  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Education of the City of Fargo  
Fargo, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Education of the City of Fargo'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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, North Dakota, as of June 30, 2012, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of the Board of Education of the City of Fargo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 43 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.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Independent Auditor's Report - Continued

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of the City of Fargo's financial statements. The schedule of fund activity, combining nonmajor fund financial statements, non-major fund budgetary comparison schedules, and schedule of expenditures of federal awards, as required by Office of Management Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the 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 schedule of fund activity, combining nonmajor fund financial statements, non-major fund budgetary comparison schedules, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.



Robert R. Peterson  
State Auditor

October 11, 2012

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

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As management of the Fargo Public School District, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Fargo Public Schools for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

**FINANCIAL HIGHLIGHTS**

- The assets of the Fargo Public School District exceeded its liabilities at the close of the most recent fiscal year by \$137,903,763 (Net Assets). Of this amount, \$34,135,548 (Unrestricted net assets) may be used to meet ongoing obligations.
- The Fargo Public School District's total net assets decreased by \$4,898,637 as a result of the current year's operation.
- The Fargo Public School District's total revenues from all sources were \$144,611,973. Total expenses were \$149,510,610.
- At the close of the current fiscal year, The Fargo Public School District's governmental funds reported combined ending fund balances of \$38,536,448, a decrease of \$10,890,240 in comparison with the prior year. Approximately 64.2% or \$24,728,227 is available for spending through an unassigned fund balance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Fargo Public School District's basic financial statements. The Fargo Public School District's basic financial statements are comprised of three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

These financial statements are organized so the reader can more clearly understand the Fargo Public School District as a whole.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the Fargo Public School District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Fargo Public School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fargo Public School District is improving or declining.

The Statement of Activities presents information showing how the school district's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the school district that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

Figure 1, summarizes the major features of the district's financial statements, including portions of the district's activities covered and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure 1 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental	Proprietary Funds
Scope	Entire District	The activities of the district that are not Proprietary or Fiduciary, such as Food Service.	Activities the district operates similar to private Business – <input type="checkbox"/> Internal Service Fund
Required Financial Statements	<input type="checkbox"/> Statement of Net Assets <input type="checkbox"/> Statement of Activities	<input type="checkbox"/> Balance Sheet <input type="checkbox"/> Statement of revenues, expenditures and changes in fund balance	<input type="checkbox"/> Statement of Net Assets <input type="checkbox"/> Statement of revenues, expenses and changes in fund net assets <input type="checkbox"/> Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual Accounting and Economic Resource Focus	Modified accrual accounting and current financial resources focus	Accrual Accounting and Economic Resource Focus
Type of Asset/Liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the 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 revenues and expenses during the year, regardless of when cash is received or paid

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fargo Public School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fargo Public School District can be divided into three groups: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

**Proprietary Funds.** The Fargo Public School District maintains a proprietary fund to account for the financing of a self-insurance program available to employees. This account is used to accumulate and allocate costs internally on a cost-reimbursement basis

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of specific groups. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Fargo Public School District.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the district's financial position. The district's net assets of \$137,903,763 are segregated into three categories. Invested in capital assets (net of related debt), restricted assets and unrestricted. Net assets invested in capital assets, net of related debt, represents 65.8% of the district's net assets. These assets are not available for future spending. Although the Fargo Public School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. Restricted net assets represent 9.4% of the district's resources that are subject to external restrictions on how they may be used. Unrestricted net assets represent the remaining 24.8% of resources. The unrestricted net assets are available to meet the district's ongoing obligations. Even though our financial position has declined since fiscal year 2011, with a decrease in net assets of \$4,898,637 in the current fiscal year, and a decrease of \$13,277,977 in unrestricted assets, we believe an unrestricted balance of 24.8% is sufficient to meet our ongoing obligations.

BOARD OF EDUCATION OF THE CITY OF FARGO NET ASSETS		
	2012	2011
<b>Assets:</b>		
Current and other assets	\$ 66,343,867	\$ 77,302,669
Capital assets (net of depreciation)	182,206,902	179,125,297
<b>Total Assets</b>	<b>\$248,550,769</b>	<b>\$256,427,966</b>
<b>Liabilities:</b>		
Current Liabilities	\$ 11,781,078	\$ 10,440,552
Long-Term Liabilities	98,865,928	103,185,014
<b>Total Liabilities</b>	<b>\$110,647,006</b>	<b>\$113,625,566</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 90,796,725	\$ 81,397,214
Restricted	12,971,490	13,991,661
Unrestricted	34,135,548	47,413,525
<b>Total Net Assets</b>	<b>\$137,903,763</b>	<b>\$142,802,400</b>

Current and other assets decreased with the reduction in cash held by our fiscal agent used to finance the Davies Construction project. A majority of the increase in capital assets resulted from construction in progress at the future Davies high school. Long term liabilities decreased with the reduction in bonds payable and Investment in capital assets, net of related debt, increased primarily from construction in progress.

Governmental activities decreased the Fargo Public School District's net assets by \$4,898,637. Key elements of this increase are as follows:

BOARD OF EDUCATION OF THE CITY OF FARGO CHANGES IN NET ASSETS		
	2012	2011
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 7,176,805	\$ 7,501,698
Operating Grants and Contributions	31,907,895	42,840,771
General Revenues		
Taxes	57,709,608	56,281,908
State Aid	45,533,453	43,372,311
Interest and Other Revenue	823,809	894,368
Sale of Assets	1,460,403	252,629
<b>Total Revenues</b>	<b>\$144,611,973</b>	<b>\$151,143,685</b>

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**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
**CHANGES IN NET ASSETS**

	2012	2011
<b>Expenses</b>		
Instruction	\$ 99,087,219	\$ 91,671,056
Support Services:		
Pupil Services	3,955,498	3,774,166
Instructional Staff Services	5,999,167	5,291,532
General Administrative Services	2,622,379	2,249,878
School Administrative Services	7,770,358	7,330,223
Business Services	2,383,142	2,389,189
Operations and Maintenance	11,748,315	9,371,308
Pupil Transportation Services	1,795,903	1,820,258
Extracurricular Services	4,110,949	3,827,912
Food Services	5,478,702	5,011,961
Community Services	247,687	234,310
Interest on Long-Term Debt	4,311,291	4,581,697
Total Expenses	149,510,610	137,553,490
Change in Net Assets	(4,898,637)	13,590,195
Net Assets – July 1	142,802,400	129,212,205
Net Assets – June 30	<u>\$137,903,763</u>	<u>\$142,802,400</u>

Operating grants and contributions were decreased by \$10,932,876 after last year's one-time funding through the education stabilization and stimulus fund. Sale of assets increased because of a \$1,200,000 land sale and Instruction expenses increased after a Board approved modification of reporting longevity and a new sick leave buy back option.

Property taxes constituted 39.91%, state aid 31.49%, operating grants/contributions 22.06%, and other revenues made up the remaining 6.54% of the total revenues of the governmental activities of the District for the 2012 fiscal year. Instruction comprises 66.27% of the district's governmental expenses, while support services account for 30.85% and interest on long-term debt 2.88%.

The district's funding pattern has shifted over the past twenty years to rely more heavily on property taxes than state sources. Property tax revenue is derived from a combination of levies based on both market value as well as net tax capacity. The cost of all governmental activities this year was \$149,510,610 compared to \$137,553,490 for the year ended June 30, 2011.

Some of the cost was paid for by the users of the district's programs. (\$7,176,805).

- The Federal and State governments subsidized certain programs with grants and contributions (\$31,907,895 for operating purposes).
- Most of the district's revenues (\$105,527,273) and increase in net assets, however, were funded by district taxpayers and the taxpayers of the State of North Dakota.
- This portion of governmental activities was paid for with \$57,709,608 in property taxes, \$45,533,453 in state aid based on the statewide education aid formula and \$2,284,212 with investment earnings and other general revenues.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
**NET COST OF GOVERNMENTAL ACTIVITIES**  
 JUNE 30, 2012

	2012		2011	
	Total Cost of Service	Net Cost of Services	Total Cost of Service	Net Cost of Services
Regular Instruction	\$ 71,088,372	\$ (44,550,933)	\$ 60,476,273	\$(23,139,690)
Special Education	21,680,532	(18,123,492)	20,182,379	(16,372,721)
Vocational Education	5,515,031	(4,568,471)	10,365,892	(9,052,549)
Adult Education	803,284	(494,471)	646,512	(309,715)
Pupil Services	3,955,498	(3,656,640)	3,774,166	(3,487,267)
Instructional Staff Services	5,999,167	(5,999,167)	5,291,532	(5,291,532)
General Admin Services	2,622,379	(2,622,374)	2,249,878	(2,249,824)
School Admin Services	7,770,358	(7,770,358)	7,330,223	(7,330,223)
Business Services	2,383,142	(2,302,354)	2,389,189	(2,334,961)
Operations & Maint.	11,748,315	(11,420,114)	9,371,308	(8,847,895)
Pupil Transp. Service	1,795,903	(995,143)	1,820,258	(959,926)
Extracurricular	4,110,949	(4,110,949)	3,827,912	(3,437,621)
Food Service Outlays	5,478,702	747,534	5,011,961	418,910
Community Services	247,687	(247,687)	234,310	(234,310)
Interest Expense	4,311,291	(4,311,291)	4,581,697	(4,581,697)
<b>TOTAL</b>	<b>\$149,510,610</b>	<b>\$(110,425,910)</b>	<b>\$137,553,490</b>	<b>\$(87,211,021)</b>

The "Net Cost of Services" column is calculated by subtracting total program revenues from the expenses of each function. If the expenses of the district's functions surpass the program revenues, negative numbers result in the Statement of Activities, representing a net expense or net cost to the general public. These functions are generally dependent upon general-purpose revenues, including tax dollars. When program revenues exceed expenses, the resulting number is positive, representing net revenue to the general public, sometimes available to offset other program costs. The "positive" or "negative" numbers merely indicate whether a particular function relies on general revenues for financing or is a net contributor to the resources of the district. Because the district relies on property taxes and state aid as its primary funding sources, the total net cost of services will be a negative number.

**GENERAL FUND**

The General Fund includes the primary operations of the district in providing educational services to students from pre-school through grade 12. Over the last five years, the district's total student population has increased from 10,553 to 10,735. Fiscal year 2012 saw a 239 student increase in enrollment. Because of continuing strong development of new residential areas and the construction of a new high school, we anticipate that the total number of students will increase slightly or remain stable in the future.

The following schedule presents a summary of General Fund revenues.

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Local Sources	\$ 53,769,934	\$ 53,150,275	\$ 619,659	1.17%
State Sources	67,005,931	70,130,430	(3,124,499)	(4.46)%
Federal Sources	10,163,294	13,882,861	(3,719,567)	(26.79)%
Other Sources	157,217	183,863	(26,646)	(14.49)%
<b>Total General Fund Revenue</b>	<b>\$131,096,376</b>	<b>\$137,347,429</b>	<b>\$(6,251,053)</b>	<b>(4.55)%</b>

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

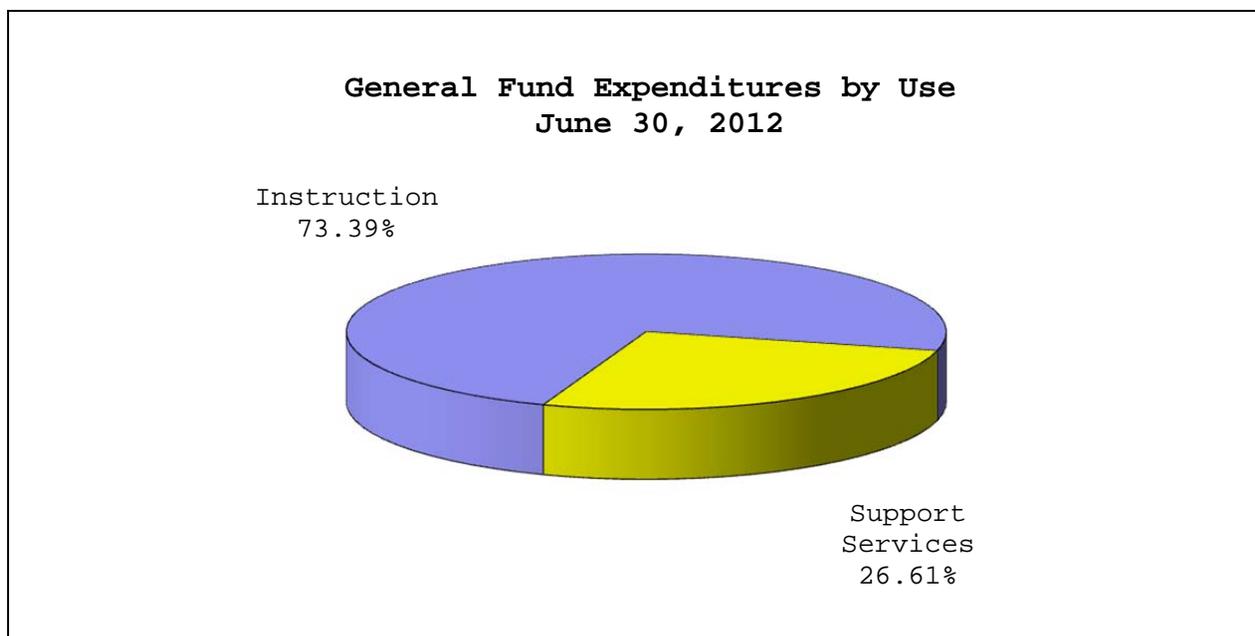
During fiscal year 2012 the total General Fund revenue decreased by \$6,251,053, or (4.55%) from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of a mix of property taxes and state aid revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Instruction	\$ 97,371,192	\$ 88,868,629	\$ 8,502,563	9.57%
Support Services	35,313,243	32,894,000	2,419,243	7.35%
Capital Outlays	-	3,328,212	(3,328,212)	(100.00)%
Debt Service	-	242,892	(242,892)	(100.00)%
<b>Total General Fund Expenditures</b>	<b>\$132,684,435</b>	<b>\$125,333,733</b>	<b>\$ 7,350,702</b>	<b>5.86%</b>

Total General Fund expenditures increased \$7,350,702 or 5.86% from the previous year. In fiscal year 2012, instruction expenditures increased because of planned employee raises and increased benefit costs. The District will continue to look at various cost containment measures and monitor rising health insurance premiums.

In fiscal year 2012, General Fund expenditures exceeded revenues by \$8,405,943 (after other financing sources/uses), resulting in a total fund balance that decreased to \$26,712,765.



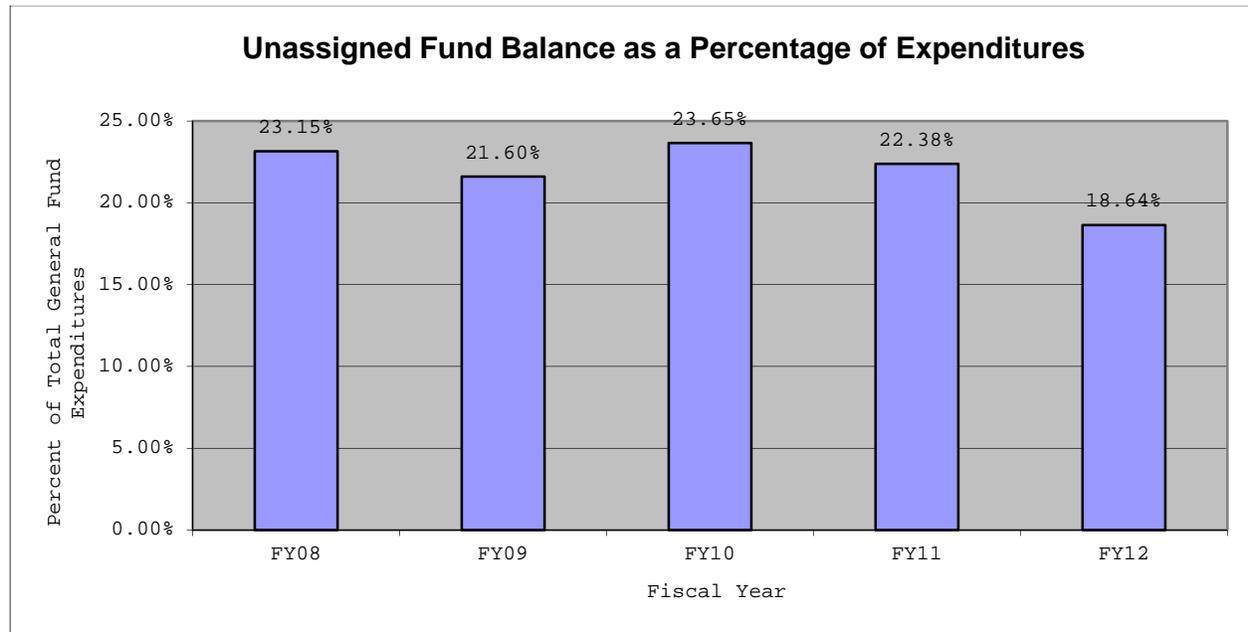
**General Fund Budgetary Highlights**

Differences between the original and final amended budget were relatively minor. Revenues were increased by \$1,461,081, and expenditures were increased by \$2,357,530. During the year, however, revenues were less than the final budgetary amount by \$2,049,951 (1.54%) and expenditures were more than the final budgetary estimate by (\$3,159,437) 2.44%. The most significant variances were lower than expected federal revenues and increased instructional costs.

**SUMMARY OF GENERAL FUND CHANGES  
 LAST TEN FISCAL YEARS**

School Year	Beginning Balance July 1	Revenues	Expenditures	Other Financing Uses and Transfers In	Ending Balance June 30
2002-2003	13,261,051	89,590,260	82,328,653	(3,943,339)	16,579,319
2003-2004	16,579,319	92,912,623	85,165,193	(3,859,527)	20,467,222
2004-2005	20,467,222	98,308,354	91,984,806	(3,911,183)	22,879,587
2005-2006	22,879,587	103,873,065	97,701,269	(3,865,135)	25,186,248
2006-2007	25,186,248	108,442,734	103,833,289	(4,077,431)	25,718,262
2007-2008	25,718,262	112,477,359	105,771,454	(4,641,219)	27,782,948
2008-2009	27,782,948	115,146,900	110,414,481	(6,168,359)	26,347,008
2009-2010	26,347,008	126,859,924	115,831,876	(6,719,034)	30,656,022
2010-2011	30,656,022	137,347,429	125,333,733	(7,551,010)	35,118,708
2011-2012	35,118,708	131,096,376	132,684,435	(6,817,884)	26,712,765

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures for the last five fiscal years.



The graph above is one of the best measures of overall financial health. The unassigned fund balance of \$24,728,227 at June 30, 2012 represents 18.64% of annual general fund expenditures. The Board of Education of the City of Fargo established a 10% fund balance goal several years ago to help with financial stability. It substantially modified that goal to 15% and has surpassed it since fiscal year 2002. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

**CAPITAL PROJECTS FUND**

The Capital Projects fund is also a major fund for the Board of Education of the City of Fargo. This fund is where we report major capital acquisitions and construction. The use of a capital projects fund allows us to report construction activities financed through bond borrowings separate from the ongoing operating activities of the general fund.

The following schedule presents a summary of Capital Projects Fund revenues.

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Local Sources	\$8,509,272	\$8,458,869	\$50,403	.60%

Total Capital Projects Fund revenues increased \$50,403 or .60% from the previous year. The primary reason for the increase during fiscal year 2012 is the receipt of addition funds to cover change orders on the Davies pool that were requested by the Fargo Park District.

The following schedule presents a summary of Capital Projects Fund expenditures.

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Operations & Maint.	\$ 159,551	\$ 117,914	\$ 41,637	35.31%
Capital Outlay	3,355,787	16,142,311	(12,786,524)	(79.21%)
Principal	4,605,000	4,225,000	380,000	8.99%
Interest	340,569	482,070	(141,501)	(29.35)%
Total Capital Projects Expenditures	\$8,460,907	\$20,967,295	\$(12,506,388)	(59.65)%

Total Capital Projects Fund expenditures decreased \$12,506,388 or 59.65% from the previous year. In fiscal year 2012, capital outlay expenditures decreased because of reduced costs during the construction of Davies High School.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2012, the Fargo Public School District had \$182,206,902 invested in capital assets. This investment includes land and land improvements, buildings and improvements, equipment and vehicles, and construction in progress.

BOARD OF EDUCATION OF THE CITY OF FARGO  
 CAPITAL ASSETS (NET OF DEPRECIATION)

	2012	2011
Land and Land Improvements	\$ 11,452,077	\$ 12,369,502
Buildings and Improvements	120,092,892	118,074,243
Equipment and Vehicles	3,241,158	3,374,021
Construction in Progress	47,420,775	45,307,531
Total Capital Assets	\$182,206,902	\$179,125,297

Construction in progress increased as a result of ongoing construction at Davies High School which is nearing full completion. Land decreased with the sale of 50 acres adjoining the Davies High school property. More detailed information about capital assets can be found in Note 11 to the financial statements.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
 Management's Discussion and Analysis - Continued

**Long-Term Debt.** At the end of the current fiscal year, the district had \$97,918,209 in outstanding debt. Of this amount, \$90,898,508 is long-term debt. The remaining \$7,019,701 is a current liability due within one year. The Fargo Public School District decreased its existing debt obligations by \$4,192,195. The key factor for this decrease is the reduction in bonds payable. Sick Leave Longevity payable has increased because of a board approved change in way of calculation. In prior years an estimated amount based on past history was used for calculation. The current calculation uses an actual amount that would be payable if all eligible employees retired at year end. Also new for this fiscal year is a Paid Leave System Payable. The Board has approved a separation of service buy-out of all sick leave accumulated after fiscal year 2011 for eligible employees at 50% of an employee's current daily salary for teachers and OT/PT's. More detailed information about the district's long-term liabilities is presented in Note 18 to the financial statements.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
**OUTSTANDING GENERAL LONG-TERM DEBT**

	2012	2011
General Obligation Bonds Payable	\$68,316,872	\$ 68,185,000
Certificates of Indebtedness Payable	60,000	115,000
Paid Leave System Payable	696,334	-
Special Assessments Payable	1,096,969	1,172,490
Building Authority Revenue Bonds Payable	23,005,000	29,430,000
Compensated Absences Payable	516,185	538,799
Sick Leave Longevity Payable	3,849,783	2,378,666
PTO Payable	195,829	229,175
Due to Other Agencies	181,237	61,274
<b>Total</b>	<b>\$97,918,209</b>	<b>\$102,110,404</b>

**Economic Factors and Next Year's Budget**

During the twenty years prior to 2011-2012, the burden for financing education in North Dakota has steadily and continually shifted from state sources to local sources. The 2009 Legislative Session made a significant change in this direction. This session committed state resources to school districts that resulted in a 75 mill reduction in local mill levies and will fund that portion with state resources. The 2011 Legislative Session reaffirmed this action, and increased the appropriation for Property Tax Relief to just over \$341,000,000. Over the past ten years, the taxable value of real property in the district has increased an average of 6.0%. Property Tax projections for 2011-12 were a 2.2% increase; however the actual increase was 1.8%. Historically, the Fargo Public School District has collected approximately 95% of the projected property tax allocation; this also saw a minor reduction in 2011-12, being closer to 90%. Even with these factors, FPS collected 99.46% of total revenue projected for 2011-12. As we enter the 2013 Legislative Session, there has been much discussion regarding broader property tax relief for the state. The district will be fully engaged in these discussions to provide input on the models likely to be presented during the session to assure minimal negative impact to the ongoing revenue of Fargo Public Schools.

In addition, as a result of a lawsuit filed against the State of North Dakota, a new funding formula emerged from the 2007 legislative session. State resources should now fund a much more significant portion of education costs. This was the first significant change in the formula since the 1970's. There is still work to be done on this new formula, but it is a positive step in resolving the funding issues in North Dakota and in this school district. The 2011 Legislative Session provided for an increase in State Foundation Aid to a level of \$3910 per student for the 2011-12 fiscal year. This rate increases to \$3980 per student for the 2012-13 fiscal year.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Management's Discussion and Analysis - Continued

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Several years ago, during long term planning processes, we established goals related to our general operations. A fund balance goal, to help with financial stability was established at ten percent. That goal was substantially modified to 15%, and has been reached and surpassed with a current fund balance of 18.64%. In recent years, this undesignated balance has declined due to the district making capital project expenditures without securing additional debt. We will continue to monitor the fund balance to assure we are maintaining a level consistent with our 15% goal. In building the 2012-13 budget the district has once again decided to undertake one capital improvement which will be funded out of the General Fund without debt.

We also wanted mill levy increases to be minimal or even decline over time. The mill levy was lowered by 4.04 mills in 2002-2003, 3.64 mills in 2003-04, .65 mills in 2004-2005, by .93 mills in 2005-2006, by 9.60 mills in 2006-2007, by 9.03 mills in 2007-2008, by 3.22 mills in 2008-2009, by 75.00 mills in 2009-2010 and remained flat in 2010-11 and 2011-12. The projection for the General Fund mill levy for 2012-13 is also to remain flat. As we prepared the 2012-13 fiscal budgets we did engage in conversations of a possible increase to the General Fund levy which currently sits at 191.18 mills. We have decided not to increase this levy for the coming fiscal year; however, we will continue to research the merits of dedicated levies, specifically for Technology, High School Tuition, and Alternative Education, all of which are allowable under state statute.

In addition this district set the following long-term objectives related to our operations:

1. This district will strive to maintain a salary and benefit package that attracts and retains the quality staff we have in the district. Our teacher compensation package ranks near the top in the state and our recent efforts to improve that package should keep the district at the top of the compensation comparison in the state.
2. This district will monitor existing debt and refinance when rates are favorable. Over the past several years all of the existing debt that could be refinanced has been restructured to realize cost savings.

While the current financial condition of the district is strong, careful planning and financial stewardship must be followed to ensure that stability remains in future years. We will work diligently through the course of the year to monitor both revenues and expenses to maintain a balanced general operating budget, while continually striving for efficiencies going forward.

**Requests for Information**

This financial report is designed to provide a general overview of the Fargo Public School District's finances for all our citizens, taxpayers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Fargo Public Schools District Office  
Broc Lietz  
Business Manager  
415 4th Street North  
Fargo, North Dakota 58102

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF NET ASSETS  
June 30, 2012 and 2011

	Governmental Activities	
	2012	2011
<b>ASSETS:</b>		
Cash and Investments	\$ 51,702,835	\$ 51,033,253
Investment with Fiscal Agent	-	7,665,303
Restricted Cash	1,846,872	-
Accounts Receivable	32,081	43,302
Taxes Receivable	3,609,609	3,890,074
Intergovernmental Receivable	3,842,658	6,382,612
Due from County Treasurer	654,063	524,674
Loan Receivable	-	2,774,900
Inventories	161,914	176,342
Contracts Receivable	3,564,071	3,838,607
Interest Receivable	70,350	12,075
Bond Costs - Unamortized	859,414	961,527
Capital Assets (Not Being Depreciated):		
Land	11,452,077	12,369,502
Construction in Progress	47,420,775	45,307,531
Capital Assets (Net of Accumulated Depreciation):		
Buildings and Improvements	120,092,892	118,074,243
Equipment and Vehicles	3,241,158	3,374,021
Total Capital Assets	<u>\$ 182,206,902</u>	<u>\$ 179,125,297</u>
Total Assets	<u>\$ 248,550,769</u>	<u>\$ 256,427,966</u>
<b>LIABILITIES:</b>		
Accounts Payable	\$ 2,981,818	\$ 1,340,808
Salaries and Benefits Payable	6,903,086	4,627,038
Contracts Payable	40,000	2,652,028
IBNR Claims	1,063,554	999,659
Unearned Revenues	129,663	105,523
Interest Payable	662,957	715,496
Long-Term Liabilities:		
Due Within One Year:		
Due to Other Agencies	181,237	61,274
Bonds Payable	6,701,872	8,140,000
Special Assessments Payable	76,592	75,521
Certificate of Indebtedness Payable	60,000	55,000
Due After One Year:		
Certificate of Indebtedness Payable	-	60,000
Bonds Payable	84,620,000	89,475,000
Special Assessments Payable	1,020,377	1,096,969
Compensated Absences	516,185	538,799
Bond Premium - Unamortized	947,719	1,074,610
Paid Leave System Payable	696,334	-
Sick Leave Longevity Payable	3,849,783	2,378,666
PTO Payable	195,829	229,175
Total Liabilities	<u>\$ 110,647,006</u>	<u>\$ 113,625,566</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, net of Related Debt	\$ 90,796,725	\$ 81,397,214
Restricted For:		
Capital Projects	11,124,618	8,330,749
Debt Service	1,846,872	5,660,912
Unrestricted	34,135,548	47,413,525
Total Net Assets	<u>\$ 137,903,763</u>	<u>\$ 142,802,400</u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
 Fargo, North Dakota

STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

Functions/Programs	2012			2011	
	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes In Net Assets	Net (Expense) Revenue and Changes In Net Assets
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 71,088,372	\$ 1,715,108	\$ 24,822,331	\$ (44,550,933)	\$ (23,139,690)
Special Education	21,680,532	713,122	2,843,918	(18,123,492)	(16,372,721)
Vocational Education	5,515,031	116,015	830,545	(4,568,471)	(9,052,549)
Adult Education	803,284	-	308,813	(494,471)	(309,715)
Support Services:					
Pupil Services	3,955,498	298,858	-	(3,656,640)	(3,487,267)
Instructional Staff Services	5,999,167	-	-	(5,999,167)	(5,291,532)
General Administrative Services	2,622,379	5	-	(2,622,374)	(2,249,824)
School Administrative Services	7,770,358	-	-	(7,770,358)	(7,330,223)
Business Services	2,383,142	80,788	-	(2,302,354)	(2,334,961)
Operations and Maintenance	11,748,315	328,201	-	(11,420,114)	(8,847,895)
Pupil Transportation Services	1,795,903	3,713	797,047	(995,143)	(959,926)
Extracurricular	4,110,949	-	-	(4,110,949)	(3,437,621)
Food Service Outlays	5,478,702	3,920,995	2,305,241	747,534	418,910
Community Services	247,687	-	-	(247,687)	(234,310)
Debt Service:					
Interest Expense	4,311,291	-	-	(4,311,291)	(4,581,697)
<b>Total Governmental Activities</b>	<b>\$ 149,510,610</b>	<b>\$ 7,176,805</b>	<b>\$ 31,907,895</b>	<b>\$ (110,425,910)</b>	<b>\$ (87,211,021)</b>
<u>General Revenues:</u>					
Taxes:					
Property Taxes; Levied for General Purposes				\$ 49,366,161	\$ 48,041,149
Property Taxes; Levied for Debt Service				7,681,553	7,545,785
Other Tax Revenue				661,894	694,974
State Aid not Restricted to Specific Program:					
Per Pupil Aid				45,533,453	43,372,311
Interest Income and Other Revenue				823,809	894,368
Sale of Assets				1,460,403	252,629
<b>Total General Revenues</b>				<b>\$ 105,527,273</b>	<b>\$ 100,801,216</b>
<b>Change in Net Assets</b>				<b>\$ (4,898,637)</b>	<b>\$ 13,590,195</b>
<b>Net Assets - July 1, 2011</b>				<b>\$ 142,802,400</b>	<b>\$ 129,212,205</b>
<b>Net Assets - June 30, 2012</b>				<b>\$ 137,903,763</b>	<b>\$ 142,802,400</b>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BALANCE SHEET-GOVERNMENTAL FUNDS  
June 30, 2012 (Summarized Comparative Totals 2011)

	MAJOR FUNDS		Other Governmental Funds	Total Governmental Funds	
	General Fund	Capital Projects		2012	2011
<u>ASSETS</u>					
Cash and Investments	\$ 30,200,907	\$ 8,844,501	\$ 3,090,448	\$ 42,135,856	\$ 40,635,737
Investment with Fiscal Agent	-	-	-	-	7,665,303
Restricted Cash	1,846,872	-	-	1,846,872	-
Interest Receivable	70,350	-	-	70,350	12,075
Accounts Receivable	31,702	-	379	32,081	42,935
Taxes Receivable	3,115,098	494,511	-	3,609,609	3,890,074
Intergovernmental Receivable	3,842,658	-	-	3,842,658	6,381,393
Due from County Treasurer	564,297	89,766	-	654,063	524,674
Contracts Receivable	-	3,564,071	-	3,564,071	3,838,607
Loan Receivable	-	-	-	-	2,774,900
Inventories	137,666	-	24,248	161,914	176,342
<b>Total Assets</b>	<b>\$ 39,809,550</b>	<b>\$ 12,992,849</b>	<b>\$ 3,115,075</b>	<b>\$ 55,917,474</b>	<b>\$ 65,942,040</b>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 2,904,702	\$ 8,305	\$ 40,353	\$ 2,953,360	\$ 1,340,808
Salaries and Benefits Payable	6,895,748	-	7,338	6,903,086	4,627,038
Due to Other Agencies	181,237	-	-	181,237	61,274
Contracts Payable	-	40,000	-	40,000	2,652,028
Deferred Contracts Payable	-	3,564,071	-	3,564,071	3,838,607
Deferred Revenues	3,115,098	494,511	129,663	3,739,272	3,995,597
<b>Total Liabilities</b>	<b>\$ 13,096,785</b>	<b>\$ 4,106,887</b>	<b>\$ 177,354</b>	<b>\$ 17,381,026</b>	<b>\$ 16,515,352</b>
<u>Fund Balances:</u>					
<u>Non-Spendable:</u>					
Inventory	\$ 137,666	\$ -	\$ 8,393	\$ 146,059	\$ 170,726
Contracts Receivable	-	3,564,071	-	3,564,071	3,838,607
Loans Receivable	-	-	-	-	2,774,900
<u>Restricted for:</u>					
Debt Service	1,846,872	-	-	1,846,872	7,663,898
Capital Projects	-	5,321,891	-	5,321,891	131,746
<u>Assigned to:</u>					
Facility Maintenance	-	-	-	-	4,126,761
Special revenue fund (food service)	-	-	2,929,328	2,929,328	2,666,863
<u>Unassigned:</u>	24,728,227	-	-	24,728,227	28,053,187
<b>Total Fund Balances</b>	<b>\$ 26,712,765</b>	<b>\$ 8,885,962</b>	<b>\$ 2,937,721</b>	<b>\$ 38,536,448</b>	<b>\$ 49,426,688</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 39,809,550</b>	<b>\$ 12,992,849</b>	<b>\$ 3,115,075</b>	<b>\$ 55,917,474</b>	<b>\$ 65,942,040</b>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2012

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Total <i>Fund Balances</i> for Governmental Funds	\$ 38,536,448
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Total net assets reported for government activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 231,273,966	
Less Accumulated Depreciation	(49,067,064)	
Net Capital Assets	182,206,902	182,206,902

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.	3,609,609
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Contracts receivable are amounts due from the park district which will be collected in future years. They are reported as deferred revenue in the governmental funds.	3,564,071
---	-----------

Interest payable on long-term debt is not accrued in the governmental fund statements until due, but is recorded as an expense on the statement of net assets.	(662,957)
--	-----------

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2012 are:

Bonds Payable	\$ (91,321,872)	
Certificate of Indebtedness	(60,000)	
Sick Leave Longevity	(3,849,783)	
PTO Payable	(195,829)	
Unamortized Bond Premium	(947,719)	
Deferred Charge for Issue Costs	859,414	
Paid Leave System Payable	(696,334)	
Special Assessments	(1,096,969)	
Compensated Absences	(516,185)	
Total Long-Term Liabilities	(97,825,277)	(97,825,277)

An internal service fund is used by the School District to charge the cost of medical insurance, worker's compensation insurance and unemployment claims to individual functions. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. Internal service fund net assets are:

	8,474,967
Total Net Assets of Governmental Activities	\$ 137,903,763

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	MAJOR FUNDS		Other Governmental Funds	Total Governmental Funds	
	General	Capital Projects		2012	2011
<u>Revenues:</u>					
Local Sources	\$ 53,769,934	\$ 8,509,272	\$ 3,934,922	\$ 66,214,128	\$ 65,320,427
State Sources	67,005,931	-	51,725	67,057,656	70,181,924
Federal Sources	10,163,294	-	2,246,148	12,409,442	15,951,513
Other Sources	157,217	-	-	157,217	183,863
<b>Total Revenues</b>	<b>\$ 131,096,376</b>	<b>\$ 8,509,272</b>	<b>\$ 6,232,795</b>	<b>\$ 145,838,443</b>	<b>\$ 151,637,727</b>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	\$ 71,834,837	\$ -	\$ -	\$ 71,834,837	\$ 58,681,429
Special Education	19,923,220	-	-	19,923,220	19,494,477
Vocational Education	4,920,490	-	-	4,920,490	10,067,475
Adult Education	692,645	-	-	692,645	625,248
Support Services:					
Pupil Services	3,844,846	-	-	3,844,846	3,757,304
Instructional Staff Services	5,603,234	-	-	5,603,234	5,293,051
General Administration Services	2,110,952	-	-	2,110,952	2,399,784
School Administration Services	8,052,413	-	-	8,052,413	7,426,131
Business Services	2,175,965	-	-	2,175,965	2,361,221
Operations and Maintenance	11,340,987	159,551	-	11,500,538	9,578,108
Pupil Transportations Services	1,795,712	-	-	1,795,712	1,820,292
Extracurricular	142,584	-	4,142,003	4,284,587	3,936,410
Food Service Outlays	-	-	5,288,480	5,288,480	5,425,103
Community Services	246,550	-	-	246,550	234,438
Capital Outlays	-	3,355,787	-	3,355,787	19,470,523
Debt Service:					
Principal	-	4,605,000	3,590,000	8,195,000	7,935,000
Interest	-	340,569	4,023,261	4,363,830	4,628,581
<b>Total Expenditures</b>	<b>\$ 132,684,435</b>	<b>\$ 8,460,907</b>	<b>\$ 17,043,744</b>	<b>\$ 158,189,086</b>	<b>\$ 163,134,575</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,588,059)	\$ 48,365	\$ (10,810,949)	\$ (12,350,643)	\$ (11,496,848)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 891,610	\$ 4,872,795	\$ 11,324,428	\$ 17,088,833	\$ 19,848,557
Transfers Out	(8,919,397)	(7,919,436)	(250,000)	(17,088,833)	(19,848,557)
Sale of Capital Assets	1,209,903	250,000	500	1,460,403	254,629
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (6,817,884)</b>	<b>\$ (2,796,641)</b>	<b>\$ 11,074,928</b>	<b>\$ 1,460,403</b>	<b>\$ 254,629</b>
<b>Net Change in Fund Balances</b>	<b>\$ (8,405,943)</b>	<b>\$ (2,748,276)</b>	<b>\$ 263,979</b>	<b>\$ (10,890,240)</b>	<b>\$ (11,242,219)</b>
Fund Balance - July 1	\$ 35,118,708	\$ 11,634,238	\$ 2,673,742	\$ 49,426,688	\$ 60,668,907
Fund Balance - June 30	\$ 26,712,765	\$ 8,885,962	\$ 2,937,721	\$ 38,536,448	\$ 49,426,688

The notes to the financial statements are an integral part of this statement.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
 Fargo, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2012

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Net Change in *Fund Balances* - Total Governmental Funds \$ (10,890,240)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Current Year Capital Outlay	\$ 7,812,189	
Current Year Depreciation / Amortization Expense	<u>(3,804,065)</u>	4,008,124

In the Statement of Activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these sales.

Loss on Disposals of Capital Assets	(926,519)
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An internal service fund is used by the district's management to charge the cost of medical insurance, workers' compensation and unemployment claims to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

(924,476)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Net Decrease in Compensated Absences	\$ 22,614	
Net Increase in Sick Leave Longevity Payable	(1,471,117)	
Net Increase in Paid System Leave Payable	(696,334)	
Net Decrease in PTO Payable	33,346	
Net Decrease in Interest Payable	52,539	
Net Decrease in Special Assessments	<u>75,521</u>	(1,983,431)

Governmental funds report bond premiums when they are first issued. In government-wide statements these amounts are deferred and amortized in the statement of activities.

126,891
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Bond issue costs are reported as an expenditure in the governmental funds, but the costs are capitalized in the government-wide statements.

(102,113)
-----------

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

6,348,128
-----------

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of an increase in taxes receivable and contracts receivable.

Decrease in Taxes Receivable	\$ (280,465)	
Decrease in Contracts Receivable	<u>(274,536)</u>	<u>(555,001)</u>

Change in Net Assets of Governmental Activities \$ (4,898,637)

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012 and 2011

	Internal Service Fund	
	2012	2011
<b>ASSETS:</b>		
<u>Current Assets:</u>		
Cash and Investments	\$ 9,566,979	\$ 10,397,516
Due from Other Govt. Units	-	1,219
Accounts Receivable	-	367
Total Current Assets	<u>\$ 9,566,979</u>	<u>\$ 10,399,102</u>
 <b>LIABILITIES:</b>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 28,458	\$ -
IBNR Claims	1,063,554	999,659
Total Current Liabilities	<u>\$ 1,092,012</u>	<u>\$ 999,659</u>
 <b>NET ASSETS:</b>		
<u>Restricted For:</u>		
Retiree's Insurance	\$ 60,000	\$ 140,000
Workman's Compensation	50,000	50,000
Unrestricted	8,364,967	9,209,443
Total Net Assets	<u>\$ 8,474,967</u>	<u>\$ 9,399,443</u>

The notes to the financial statements are an integral part of this statement.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
For the Years Ended June 30, 2012 and 2011

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	Internal Service Fund	
	2012	2011
<u>Operating Revenues:</u>		
Contributions to Self-Insurance	<u>\$ 13,734,467</u>	<u>\$ 12,322,515</u>
Total Operating Revenues	<u>\$ 13,734,467</u>	<u>\$ 12,322,515</u>
<u>Operating Expenses:</u>		
Health Insurance Claims	<u>\$ 14,658,943</u>	<u>\$ 12,203,923</u>
Operating Income (Loss)	<u>\$ (924,476)</u>	<u>\$ 118,592</u>
Total Net Assets - July 1	<u>\$ 9,399,443</u>	<u>\$ 9,280,851</u>
Total Net Assets - June 30	<u><u>\$ 8,474,967</u></u>	<u><u>\$ 9,399,443</u></u>

The notes to the financial statements are an integral part of this statement.

BOARD OF EDUCATION OF THE CITY OF FARGO  
 Fargo, North Dakota

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Years Ended June 30, 2012 and 2011

	Internal Service Fund	
	2012	2011
<u>Cash Flows from Operating Activities:</u>		
Received from User Charges	\$ 13,736,053	\$ 12,320,929
Payments for Health Insurance Claims	(14,566,590)	(12,303,729)
Net Cash Provided (Used) by Operating Activities	\$ (830,537)	\$ 17,200
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (830,537)	\$ 17,200
Cash and Cash Equivalents - July 1	\$ 10,397,516	\$ 10,380,316
Cash and Cash Equivalents - June 30	\$ 9,566,979	\$ 10,397,516
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>		
Operating Income (Loss)	\$ (924,476)	\$ 118,592
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	367	(367)
Increase in Due from Other Govts.	1,219	(1,219)
Decrease in Accounts Payable	28,458	(231,430)
Increase in IBNR Claims Payable	63,895	131,624
Net Cash Used by Operating Activities	\$ (830,537)	\$ 17,200

The notes to the financial statements are an integral part of this statement.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
June 30, 2012 and 2011

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	<u>Agency Funds</u>	
	<u>2012</u>	<u>2011</u>
<u>ASSETS:</u>		
Cash and Investments	\$ 1,616,078	\$ 1,226,480
Due from Other Governmental Units	465,053	407,712
Accounts Receivable	<u>835</u>	<u>36,740</u>
Total Assets	<u>\$ 2,081,966</u>	<u>\$ 1,670,932</u>
<u>LIABILITIES:</u>		
Accounts Payable	\$ 213,753	\$ 178,908
Due to Student Groups	<u>1,868,213</u>	<u>1,492,024</u>
Total Liabilities	<u>\$ 2,081,966</u>	<u>\$ 1,670,932</u>

The notes to the financial statements are an integral part of this statement.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Board of Education of the City of Fargo have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the school district's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Board of Education of the City of Fargo. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board of Education of the City of Fargo to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board of Education of the City of Fargo.

Based on these criteria, there is one component unit to be included within the Board of Education of the City of Fargo as a reporting entity.

**BLENDED COMPONENT UNIT**

This component unit is a legally separate entity, which provides services exclusively to the school.

Fargo School District Building Authority – The building authority was created by the school board as a legally separate entity. Its purpose is to promote the educational system of the district by providing financing for use by the school in altering, repairing, maintaining or constructing buildings and making improvements connected to school buildings. The school board is the governing board of the building authority. Activity of the Building Authority is recorded in the debt service and capital projects funds. Financial statements for the component unit may be obtained at the Fargo Public School District Office.

B. Basis of Presentation, Basis of Accounting

*Government-wide statements:* The statement of net assets and the statement of activities display information about the primary government, the Board of Education of the City of Fargo. These statements include financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the school district's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the school district's funds including fiduciary funds. Separate statements for each fund category: governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The school district reports the following governmental funds:

*General Fund.* This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Capital Projects Fund.* This fund is used to account for financial resources that are restricted, committed or assigned for the acquisition or construction of major capital facilities.

Additionally, the school district reports the following fund types:

*Internal Service Fund.* This fund accounts for medical insurance, workers' compensation insurance and unemployment claims provided to other departments on a cost-reimbursement basis.

*Agency Funds.* This fund accounts for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

### C. Measurement Focus and Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The fiduciary funds are agency funds. The government-wide, proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the school district gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The school district considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the school district funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the school district's policy to first apply cost-reimbursement grant resources to such programs, and then use general revenues.

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

#### D. Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general, special revenue, debt service and capital projects funds on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county auditor by August 25. The governing body of the school district may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Encumbrance accounting is employed in governmental funds. Encumbrances, which are comprised of purchase orders, outstanding at year-end, are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated during the subsequent fiscal year.

#### E. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents consist of deposits with a maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance. The bank balances of the district, as of the balance sheet date, are entirely insured or collateralized with securities held by the school system or its agent in the school system's name.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

Investments consist of certificates of deposit stated at cost and government securities for the building authority stated at fair value. Although all deposits of the district are categorized as Category 1, readers should be aware of the three categories of disclosure required for investments and deposits.

Category	Investments	Deposits
1	Insured or registered or securities held by the entity or its agent in the entity's name.	Insured or collateralized, with securities held by the entity or by its agent in the entity's name.
2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.	Collateralized, with securities held by the pledging financial institution's trust department or agent in the entity's name.
3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name (this includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).	Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

F. Inventories

The district accounts for the inventory of the general and food service funds using the consumption method. Under this method inventories are initially recorded as assets and the recognition of the expenditure is deferred until the period in which the inventories are actually consumed. Donated food commodities are reported in the governmental funds as revenue when received. Inventories are valued on the FIFO (first in first out) cost basis.

The valuation of food service commodity inventory is established by the USDA and provided to the district. The value of the commodities inventory at June 30, 2012 was \$15,855.

G. Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings and improvements, and vehicles and equipment of the district are depreciated using the straight line method over the following estimated useful lives.

Assets	Years
Permanent Buildings	50
Temporary or Wood Structures	10
Playground Equipment	20
Vehicles - New	15
Vehicles – Used – Includes: Generators, Tractors, Pallet Stackers	*
Exception: Front-End Loaders	25
Copy Machines	6
Servers and Computer Hardware	5
Other Equipment – Includes: Food Service Equipment, Walk in Freezers	10
Auto Scrubbers, Stage Tables	

\* Useful life on used vehicles is 15 years less (year of manufacture less year of purchase).

Land and Construction in Progress are not depreciated.

H. Compensated Absences

Vested or accumulated vacation leave is reported in the government-wide statement of net assets. Compensation for unused vacation leave will be granted to all 12-month employees upon termination of employment with the school district based on the current rate of pay. Twelve-month employees may carry forward unused leave not to exceed 10 days, which will be added to the accumulation for the current year. Vacation leave is earned as follows:

<b>SERVICE</b>	<b>DAYS PER YEAR</b>
0 – 11 Months	7
1 year through 5 years 11 months	14
6 years through 11 years 11 months	17
12 years through 14 years 11 months	20
15 years and above	22

Nine and ten month employees are entitled to two personal days per year, prorated to the length of the employee's work day, which may accumulate to a maximum of five days. On October 9, 2011 Teachers and OT/PT's (occupational therapists and physical therapists) negotiated a new contract which calculates their personal and sick leave benefits under new rules. Teachers and OT/PT's will receive three personal days per year which may accumulate to a maximum of six days, prorated to the length of the employee's work day. Teachers and OT/PT's may request payment for unused personal leave, based on contracted daily hours at their current salary step for each personal day accumulated. All other nine and ten month employees who request payment for unused personal leave will be paid at the current year's third step of the salary schedule in group two.

Sick leave benefits are provided to all employees who are employed for four or more hours per day. All employees, other than Teachers and OT/PT's, receive fifteen days per year. Sick leave benefits are prorated on the basis of the number of months of employment for employees whose employment starts at other than the normal starting date. Sick leave benefits can accumulate up to a maximum of 180 days for regular district employees, and 246 days for administrators. Under the new Teacher and OT/PT contract two categories of sick leave were established, Legacy Sick Leave and Sick Leave. Any unused accumulated sick leave at the end of the 2010-2011 school-year, was classified as Legacy Sick Leave. Sick days taken during the 2011-2012 fiscal year and forward will be taken from the Legacy Sick Leave balance first. When this balance is reduced to zero, then the days will come off of their Sick Leave balance. Teachers and OT/PT's will receive 12 days of sick leave, prorated to the length of the employee's work day. This will be added to their Sick Leave category, not the Legacy Sick Leave. Any unused sick leave can accumulate year after year with no 180 day maximum. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits for regular employees. A liability has been recorded for Teachers and OT/PT's who have the option to sell back some or all of their accumulated sick leave once they have accumulated a minimum of 65 days (Legacy and Sick Leave combined). Teachers and OT/PT's who elect to sell back their sick leave days, over the 65 day minimum, will be paid for them at 50% of their current daily rate.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets and are paid out of the capital projects fund and general fund respectively. Bond premiums, discounts and issuance costs are generally recognized as long-term and will be amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. Fund Balances & Net Assets Equity

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance spending priorities, minimum fund balance policies, and fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

It is the policy of the Board of Education of the City of Fargo to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

***Minimum Fund Balance Policy:***

The Board of Education of the City of Fargo established a 10% general fund carryover balance goal several years ago to help with financial stability. It substantially modified that goal to 15% and has surpassed it since fiscal year 2002. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district. The unassigned general fund balance of \$ 24,728,227 at June 30, 2012 represents 18.64% of annual general fund expenditures.

***GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions***

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.

CONTINUED ON NEXT PAGE...

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School District Board of Directors. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By business manager action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

**Nonspendable Fund Balances – consist of the following items at June 30, 2012:**

General Fund (Major Fund) – Either in a nonspendable form or legally or contractually required to be maintained intact:

- (a) Inventory in the general fund is a nonspendable amount totaling \$137,666.

Capital Projects Fund (Major Fund) – Legally or contractually required to be maintained intact:

- (a) Contracts Receivable is a legally contracted long-term receivable with the Fargo Park District for their share of special assessments at several schools totaling \$3,564,071.

Special Revenue Fund – (Food Service) (Nonmajor Fund) – In a nonspendable form:

- (a) Inventory in the Special Revenue Fund – (Food Service), consists of food which is a nonspendable amount totaling \$8,393.

**Restricted Fund Balances – consist of the following items at June 30, 2012:**

General Fund (Major Fund) – Restricted by enabling legislation & bond indenture:

- (a) Legally restricted cash held by Wells Fargo Securities for the early payoff of the Bluestem bond indenture. \$1,846,872.

Capital Projects Fund (Major Fund) – Restricted by enabling legislation & bond indenture:

- (a) Special Assessments fund levy balance. This is restricted by specified tax levies. \$5,321,891.

**Assigned Fund Balances – consist of the following items at June 30, 2012:**

Special Revenue Fund – (Food Service) (Nonmajor Fund) – Spendable or available for appropriation but is used only for Food Service purposes:

- (a) Food Service assigned balance of \$2,929,328. This is used only for Food Service purposes.

**Unassigned Fund Balance – consists of the following item at June 30, 2012:**

General Fund (Major Fund) – Available for any legal purpose used to finance operating expenditures:

- (a) The unassigned fund balance amount of \$24,728,227 is available to fund all other operating expenditures not already classified in other areas in accordance with governmental accounting standards as promulgated by the Governmental Accounting Standards Board.

**Net Assets Equity:**

Invested in capital assets, net of related debt, is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

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

Restrictions of net assets equity, shown in the Statement of Net Assets, are due to restricted tax levies and bond indenture requirements for our capital projects. The restriction in debt service is for the Bluestem callable bond payable in December of 2012.

Unrestricted net assets equity is primarily unrestricted amounts related to the general fund. The unrestricted net assets are available to meet the district's ongoing obligations.

**K. Interfund Transactions**

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transfers are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

<b>NOTE 2: LEGAL COMPLIANCE - BUDGETS</b>
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**BUDGET AMENDMENTS**

The school board amended the school district budget for 2012 as follows:

	<b>REVENUES</b>		
	Original Budget	Amendment	Amended Budget
General Fund	\$131,685,246	\$1,461,081	\$133,146,327

	<b>EXPENDITURES</b>		
	Original Budget	Amendment	Amended Budget
General Fund	\$127,167,468	\$2,357,530	\$129,524,998

	<b>TRANSFERS IN</b>		
	Original Budget	Amendment	Amended Budget
General Fund	\$427,000	\$744,223	\$1,171,223

**NOTE 3: DEPOSITS AND INVESTMENTS**

**Deposits:**

In accordance with North Dakota Statutes, the Fargo Public School District maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by and county, city, township, school district, park district, or other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At the year ended June 30, 2012, the Fargo Public School District's carrying amount of all deposits, (less investments and restricted cash of \$18,440,327 and less \$955 in petty cash held at the schools), was \$36,724,503 and the bank balances were \$39,456,817. Of the bank balances, \$1,750,000 was covered by Federal Depository Insurance. The remaining balances of \$37,706,817 were collateralized with securities held by the pledging financial institution's agent in the school district's name.

Additional information on deposits is located in Note 1E.

**Restricted Cash:**

As of June 30, 2012, the school district had \$1,846,872 in restricted cash being held by Wells Fargo Securities. This amount is being held for the early payoff of the Bluestem Bonds due in December of 2012.

<b>Restricted Cash</b>	<b>Amount</b>	<b>Bond Due Date</b>
Restricted Cash-Wells Fargo	\$1,846,872	12/18/2012

**Investments:**

As of June 30, 2012 the school district had the following investments and maturities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity</b>
Repurchase Agreement-Alerus	\$ 5,045,500	689 Days
Repurchase Agreement-Bank of the West	5,047,955	682 Days
Repurchase Agreement-American Federal	5,000,000	103 Days
Repurchase Agreement-Starion	1,500,000	272 Days
<b>Total</b>	<b>\$16,593,455</b>	

**Interest Rate Risk:**

The school district does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates.

**Credit Risk:**

State statutes authorize the school district to invest in:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation or by the state.
- (4) Obligations of the state.
- (5) Certificates of deposit fully insured or guaranteed by the federal deposit insurance corporation and placed for the benefit of the public depositor by a public depository through an appropriate reciprocal deposit placement service as determined by the commissioner of financial institutions.

As of June 30, 2012, the school district had certificates of deposits totaling \$16,593,455.

**Concentration of Credit Risk:**

The school district does not have a limit on the amount the district may invest in any one issuer. The Fargo Public School District's current bond rating is AA-.

**NOTE 4: TAXES RECEIVABLE**

Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable since all delinquent property is sold after five years to satisfy the tax lien.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

**NOTE 5: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts on open account from other school districts and organizations for goods and services furnished by the school district. An allowance has been established for uncollectible accounts from Bluestem Center for the Arts which is in the process of legally dissolving their entity.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

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**NOTE 6: INTERGOVERNMENTAL RECEIVABLE**

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of state and federal dollars.

**NOTE 7: DUE FROM COUNTY TREASURER**

The amount due from the county treasurer consists of the cash on hand for taxes collected but not remitted to the school at June 30.

**NOTE 8: LOAN RECEIVABLE: BLUESTEM CENTER FOR THE ARTS – RELATED PARTY**

The Fargo Public Schools entered into an agreement with the Bluestem Center for the Arts, wherein the Bluestem Center for the Arts agreed to provide money for the construction of a facility to house the Trollwood Performing Arts School, a program of the Fargo Public Schools. The original note was signed January 8, 2008 and allowed for the advancement of up to \$3,000,000 for construction purposes of the facility. As of June 30, 2012, \$2,833,089 had been advanced and outstanding on the note. The note is non-interest bearing, reported at its present value and contains no scheduled repayment provisions as of these dates. Bluestem Center for the Arts had agreed to repay the Fargo Public Schools as cash flow permitted during the time pledges came in over the next three to five years. As of June 30, 2012, this amount has been deemed uncollectible since Bluestem Center for the Arts is in the process of dissolving their entity.

**NOTE 9: CONTRACTS RECEIVABLE**

Contracts receivable represent contracts with the Fargo Park District for land sales and improvements of district property. The following is a summary of contracts receivable:

\$170,608 Contract Receivable for Bennett Specials, due in annual installments of \$6,784 to \$7,158 through 2026; interest at 6.54%-6.748%.	\$ 104,047
\$3,400,000 Contract Receivable for 2009 Lease Revenue Bonds, due in annual installments of \$205,000 to \$315,000 through May 2024, interest at 4.4%-5.2%.	3,015,000
\$400,000 Contract Receivable for 2006 Land Certificate of Indebtedness, due in annual installments of \$60,000 March 2013; interest at 3.8%.	60,000
\$503,594 Contract Receivable for Kennedy Elementary Specials, due in annual installments of \$7,148 to \$31,070 through 2029; interest at 5.566% - 6.748%.	<u>385,024</u>
Total Contracts Receivable	<u>\$3,564,071</u>

**NOTE 10: INVENTORIES**

Inventories consist of supplies and materials of the general fund and food and supplies for the food service fund. Reported inventories are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

**NOTE 11: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2012.

<b>Governmental Activities:</b>	<b>Balance July 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,369,502	\$ -	\$ 917,425	\$ 11,452,077
Construction in Progress	45,307,531	7,412,051	5,298,807	47,420,775
<b>Total capital assets, not depreciated</b>	<b>\$ 57,677,033</b>	<b>\$7,412,051</b>	<b>\$6,216,232</b>	<b>\$ 58,872,852</b>
<i>Capital assets, being depreciated:</i>				
Buildings and Improvements	\$158,763,862	\$5,298,807	\$ -	\$164,062,669
Vehicles and Equipment	8,016,564	400,138	78,256	8,338,446
<b>Total capital assets, being depreciated</b>	<b>\$166,780,426</b>	<b>\$5,698,945</b>	<b>\$ 78,256</b>	<b>\$172,401,115</b>
Less accumulated depreciation for:				
Buildings and Improvements	\$ 40,689,619	\$3,280,158	\$ -	\$ 43,969,777
Vehicles and Equipment	4,642,543	523,793	69,048	5,097,288
<b>Total accumulated depreciation</b>	<b>\$ 45,332,162</b>	<b>\$3,803,951</b>	<b>\$ 69,048</b>	<b>\$ 49,067,065</b>
<b>Total capital assets being depreciated, net</b>	<b>\$121,448,264</b>	<b>\$1,894,994</b>	<b>\$ 9,208</b>	<b>\$123,334,050</b>
<b>Governmental activities capital assets, net</b>	<b>\$179,125,297</b>	<b>\$9,307,045</b>	<b>\$6,225,440</b>	<b>\$182,206,902</b>

**NOTE 12: BOND COST/PREMIUM**

The following is a summary of changes in bond costs for the year ended June 30, 2012.

	<b>Balance July 1</b>	<b>Bond Cost Amortization</b>	<b>Balance June 30</b>
2004B (28M) Limited Tax Bond	\$190,959	\$ 15,913	\$175,046
2005 J-Refunding (98 Const)	125,269	20,878	104,391
2006 Refunding (98 Refunding)	8,679	8,679	-
2006 3.6M Jefferson Bond	23,817	4,331	19,486
2007 10M Limited Tax Bond	101,622	6,352	95,270
2008 33M Limited Tax Bond	188,438	12,563	175,875
2009 3.4M Lease Revenue Bond	72,052	5,543	66,509
2009B 19.650M Lease Rev Bond	250,691	27,854	222,837
<b>Net Bond Costs</b>	<b>\$961,527</b>	<b>\$102,113</b>	<b>\$859,414</b>

The following is a summary of changes in bond premiums for the year ended June 30, 2012.

	<b>Balance July 1</b>	<b>Bond Premium Amortization</b>	<b>Balance June 30</b>
2004B (28M) Limited Tax Bond	\$ 391,465	\$ 32,622	\$358,843
2005 J-Refunding (98 Const)	200,481	33,413	167,068
2006 Refunding (98 Refunding)	16,986	16,986	-
2006 1.485M Land CI Bond	1,854	927	927
2006 3.6M Jefferson Bond	5,712	1,039	4,673
2007 10M Limited Tax Bond	44,637	2,790	41,847
2008 33M Limited Tax Bond	120,874	8,058	112,816
2009 3.4M Lease Revenue Bond	42,585	3,276	39,309
2009B 19.650M Lease Rev Bond	250,016	27,780	222,236
<b>Net Bond Costs</b>	<b>\$1,074,610</b>	<b>\$126,891</b>	<b>\$947,719</b>

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

A net amount for depreciation and amortization was charged to functions/programs of the school district as follows:

Governmental Activities:	Depreciation	Bond Costs	Bond Premium	Totals
Regular Instruction	\$2,268,631	\$ 67,263	\$ (83,711)	\$2,252,183
Special Education	727,215	23,377	(27,937)	722,655
Vocational Education	370,911	10,724	(14,348)	367,287
Adult Education	23,133	749	(895)	22,987
Instructional Staff	821	-	-	821
General Administrative Services	3,348	-	-	3,348
School Administrative Services	23,607	-	-	23,607
Business Services	29,610	-	-	29,610
Extracurricular	61,938	-	-	61,938
School Food Services	123,831	-	-	123,831
Operations and Maintenance	170,906	-	-	170,906
<b>Total Depreciation / Amortization</b>	<b>\$3,803,951</b>	<b>\$102,113</b>	<b>\$(126,891)</b>	<b>\$3,779,173</b>

**NOTE 13: ACCOUNTS PAYABLE**

Accounts payable consist of amounts on open account for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

**NOTE 14: SALARIES AND BENEFITS PAYABLE**

Salaries and benefits payable consist of salaries earned by employees but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from employees' salaries as of June 30.

**NOTE 15: CONTRACTS PAYABLE**

Contracts payable consist of retainages payable earned on various construction contracts at June 30 but not paid until after year-end.

**NOTE 16: OPERATING LEASES RECEIVABLE**

The school district, as lessor, has leased a gymnastics facility at South High School, to American Gold, the YMCA and Moorhead Public School District. The school district has also leased office space in the District Administration Building to the Fargo Public Schools Federal Credit Union and is leasing an internet license block to the Forum Communications Company for wireless internet services. SEEC (Southeast Education Cooperation) leases space in Agassiz School for use as training center for enhanced educational services for numerous schools in the southeastern North Dakota region. School District property is being leased to the City of Fargo for use as a depository and pick-up for recycling containers and District property is also being leased to MinnKota Enviro-Services Inc. for a recycling facility. Leases receivable are as follows:

	Year Ending June 30th					TOTAL
	2013	2014	2015	2016	2017	
American Gold Gymnastics	\$15,896	\$15,896	\$15,896	\$ -	\$ -	\$ 47,688
YMCA	5,000	5,000	1,250	-	-	11,250
Credit Union	2,729	2,729	2,729	2,729	455	11,371
City of Fargo Recycling	7,650	-	-	-	-	7,650
Forum Communications	6,000	6,000	2,250	-	-	14,250
Moorhead Public Schools	4,667	-	-	-	-	4,667
MinnKota Enviro Services	3,300	3,300	3,300	-	-	9,900
SEEC (Southeast Education Coop.)	17,250	17,250	17,250	17,767	18,301	87,818
<b>TOTAL</b>	<b>\$62,492</b>	<b>\$50,175</b>	<b>\$42,675</b>	<b>\$20,496</b>	<b>\$18,756</b>	<b>\$194,594</b>

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

**NOTE 17: LEASES PAYABLE**

**Operating Leases** – The school district has entered into various lease agreements. The Krider building has been leased from T.S. McLaughlin for vehicle and equipment storage and maintenance and a portion of the building is used for our print shop. Riverwood Park is being leased for playing fields for football practices and non-varsity football games. To alleviate parking problems for our employees, the Fargo Public School leases from The Fargo Housing and Redevelopment Authority, twenty parking spaces next to our district office. Total costs for all leases were \$ 113,952 for the year ended June 30, 2012. The future minimum lease payments are as follows:

Year Ending June 30	Krider Building	Riverwood Park	Fargo Housing Authority	Total
2013	\$108,002	\$ 323	\$7,200	\$115,525
2014	108,002	323	-	108,325
2015	108,002	323	-	108,325
2016	108,001	324	-	108,325
2017	54,001	324	-	54,325
2018-2022	-	1,617	-	1,617
2023-2027	-	1,402	-	1,402
<b>TOTAL</b>	<b>\$486,008</b>	<b>\$4,636</b>	<b>\$7,200</b>	<b>\$497,844</b>

**NOTE 18: LONG-TERM DEBT**

**Changes in Long-Term Liabilities** – During the year ended June 30, 2012, the following changes occurred in liabilities reported in long-term debt.

	Balance July 1	Increases	Decreases	Balance June 30	Due Within One Year
G.O. Bonds Payable	\$ 68,185,000	\$2,131,872	\$ 2,000,000	\$68,316,872	\$4,376,872
Certificate of Indebtedness	115,000	-	55,000	60,000	60,000
Special Assessments	1,172,490	-	75,521	1,096,969	76,592
Building Authority Rev. Bonds	29,430,000	-	6,425,000	23,005,000	2,325,000
Compensated Absences	538,799	684,345	706,959	516,185	-
Sick Leave Longevity Payable	2,378,666	5,288,761	3,817,644	3,849,783	-
PTO Payable	229,175	-	33,346	195,829	-
Paid Leave System Payable	-	696,334	-	696,334	-
Due to Other Agencies	61,274	181,237	61,274	181,237	181,237
<b>TOTAL</b>	<b>\$102,110,404</b>	<b>\$8,982,549</b>	<b>\$13,174,744</b>	<b>\$97,918,209</b>	<b>\$7,019,701</b>

Debt payable at June 30, 2012 is comprised of the following individual issues:

**Bonds Payable:**

\$28,000,000 Limited Tax Bonds Series 2004B, due in annual installments of \$1,275,000 to \$3,100,000 through May 2023; interest at 4.5% to 5.0%.	\$23,470,000
\$2,131,872 Bluestem Bond Series 2008 A & B, due in December of 2012, interest at 1.12%.	1,846,872
\$10,000,000 Limited Tax Bond Series 2007, due in annual installments of \$3,890,000 to \$6,110,000 through May 2027; interest at 4.3%.	10,000,000

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

**Bonds Payable (Continued):**

\$33,000,000 Limited Tax Bond Series 2008, due in annual installments of \$1,255,000 to \$5,580,000 through May 2026; interest at 4.0% to 5.0%.	<u>\$33,000,000</u>
Total Bonds Payable	<u>\$68,316,872</u>

**Certificate of Indebtedness:**

\$1,485,000 Certificate of Indebtedness with U.S. Bank due in a final annual installment of \$60,000 in 2013; with interest at 3.8%.	<u>\$ 60,000</u>
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**Building Authority Revenue Bonds:**

\$19,650,000 Lease Revenue Refunding Bonds, Series 2009B, due in annual installments of \$1,420,000 to \$2,715,000 through May 2020; interest at 2.5% to 4.0%.	\$16,055,000
\$23,005,000 First Mortgage Revenue Refunding Bonds of 2005, Refunding of 1997B Bonds, due in annual installments of \$370,000 to \$460,000 through May 2017; interest at 4.0%.	2,125,000
\$3,600,000 Lease Revenue Bonds of 2006; due in annual installments of \$330,000 to \$395,000 through November 2016; interest at 3.875% to 4.05%.	1,810,000
\$3,400,000 Lease Revenue Bonds of 2009; due in annual installments of \$205,000 to \$315,000 through May 2024; interest at 4.4% to 5.2%.	<u>3,015,000</u>
Total Building Authority Revenue Bonds	<u>\$23,005,000</u>

**Special Assessments:**

Special Assessments Payable represents special assessment levied by the City of Fargo, ND against the school district for the District's share of the benefit derived from city funded improvements. The special assessments payable are due in annual installments through 2030; with interest at 4.7% to 6.748%.	<u>\$ 1,096,969</u>
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**Total Long-Term Debt** \$92,478,841

The annual long-term debt service requirements at June 30, 2012, are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending June 30</b>	<b>General Obligation Bonds</b>		<b>Building Authority Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 4,376,872	\$ 3,108,362	\$ 2,325,000	\$858,465
2014	3,310,000	3,000,787	2,530,000	786,066
2015	3,460,000	2,860,888	2,705,000	699,633
2016	3,620,000	2,705,488	2,940,000	605,137
2017	3,785,000	2,541,688	3,155,000	500,376
2018 – 2022	21,865,000	9,874,887	8,735,000	969,363
2023 – 2027	27,900,000	3,965,830	615,000	48,060
2028 – 2031	-	-	-	-
<b>TOTALS</b>	<b>\$68,316,872</b>	<b>\$28,057,930</b>	<b>\$23,005,000</b>	<b>\$4,467,100</b>

<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending June 30</b>	<b>Certificates of Indebtedness</b>		<b>Special Assessments</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2013	\$60,000	\$2,280	\$ 76,592	\$ 67,024
2014	-	-	79,611	62,633
2015	-	-	82,800	58,074
2016	-	-	86,167	53,336
2017	-	-	56,445	48,409
2018 – 2022	-	-	285,805	188,543
2023 – 2027	-	-	346,586	92,572
2028 – 2031	-	-	82,963	7,438
<b>TOTALS</b>	<b>\$60,000</b>	<b>\$2,280</b>	<b>\$1,096,969</b>	<b>\$578,029</b>

<b>Year Ending June 30</b>	<b>Total Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 6,838,464	\$ 4,036,131
2014	5,919,611	3,849,486
2015	6,247,800	3,618,595
2016	6,646,167	3,363,961
2017	6,996,445	3,090,473
2018 – 2022	30,885,805	11,032,793
2023 – 2027	28,861,586	4,106,462
2028 – 2031	82,963	7,438
<b>TOTALS</b>	<b>\$92,478,841</b>	<b>\$33,105,339</b>

**NOTE 19: PENSION PLANS**

**1. North Dakota Teachers Fund for Retirement TFFR**

The school district contributes to the North Dakota Teachers Fund for Retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on their website, [www.nd.gov/rio](http://www.nd.gov/rio), or may be obtained by writing to Teacher's Fund for Retirement, PO Box 7100, Bismarck, North Dakota, 58507-7100.

Plan members are required to contribute 7.75% of their annual covered salary and the school district is required to contribute 8.75% of the teacher's salary. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to TFFR for the fiscal years ending June 30, 2012, 2011 and 2010 were \$5,229,708, \$5,104,030, and \$4,558,136 respectively, equal to the required contributions for the year.

**2. North Dakota Public Employees' Retirement System**

The school district contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

**BOARD OF EDUCATION OF THE CITY OF FARGO**  
Notes to the Financial Statements - Continued

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Plan members are required to contribute 5% of their annual salary. The school district is required to contribute 6.26% of the employee's salary which consists of 5.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the school district are established and may be amended by the State Legislature. The school district's contributions to NDPERS for the years ending June 30, 2012, 2011 and 2010 were \$1,075,582, \$906,852, and \$838,320 respectively, equal to the required contributions for the year.

**NOTE 20: RISK MANAGEMENT**

The Board of Education of the City of Fargo is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The school district pays an annual premium to NDIRF for its general liability, automobile insurance coverage and inland marine. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and one million dollars per occurrence for automobile coverage. Mobile equipment and portable property is limited to losses of \$1,711,101 for scheduled music property and \$8,634,301 for computerized business equipment.

The State Bonding Fund currently provides the school district with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The school district has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

The school district has retained risk for employee health and dental insurance up to a maximum of \$200,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

Claims, which have been incurred at year-end but not reported, have been recorded as a claim reserve payable in the amount of \$1,063,554. Blue Cross Blue Shield, the plan administrator, has calculated this reserve requirement. Changes in the claim reserve payable during the past two years are as follows:

	Year Ended 6-30-12	Year Ended 6-30-11
Unpaid Claims July 1	\$ 999,659	\$ 868,035
Incurred Claims Including IBNR's	10,398,375	8,951,124
Less: Claims Paid	10,334,480	8,819,500
Unpaid Claims June 30	\$ 1,063,554	\$ 999,659

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 21: CONSTRUCTION COMMITMENTS**

The school district had only one construction project remaining as of June 30, 2012. Davies High school is almost finished and only two contractors have work left to complete. At year-end the district's commitments with the contractors were as follows:

<b>Project</b>	<b>Contract</b>	<b>Completed</b>	<b>Retainage</b>	<b>Commitment</b>
Davies High School	\$47,439,427	\$47,420,775	\$40,000	\$58,652

On April 22, 2003 the Board adopted a Long-Range Facility Plan. The last remaining piece of that plan was the construction of the Davies High school which is now essentially complete.

**NOTE 22: POST-RETIREMENT BENEFITS**

**GROUP HEALTH PLAN**

In addition to the pension benefits described in Note 19, the Board of Education of the City of Fargo provides post-retirement health care benefits, in accordance with Administrative Policy 5450, to all full time employees who retired prior to June, 2001. To be eligible for the plan an employee who retires before the age of 65 and after their 55<sup>th</sup> birthday must have 15 years of continuous service prior to the date of retirement. An employee who reaches the Rule of 85 as defined by Teacher's Fund for Retirement or Public Employee Retirement System prior to his/her 55<sup>th</sup> birthday will be treated in the same manner as employees who have reached the age of 55 for the purposes of Administrative Policy 5450. The employee may retain membership in the district's group health and life insurance plans until age 65 with premiums paid by the district with the retiree contributing to the cost of the premiums at the employee participation level in effect for all active employees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Currently only 3 retirees remain covered under the plan and by fiscal year 2014 it will be eliminated. The school district has estimated a cost of \$60,000 for the post-employment benefit for the retiree's health plan. This amount has been restricted in the Internal Service Fund. Also the school district has restricted \$50,000 of the fund for workers compensation coverage.

**EARLY RETIREMENT AGREEMENT**

The Board of Education of the City of Fargo offers early retirement payments to employees under Administrative Policy 5452 "Longevity Recognition". Under Administrative Policy 5452 all paid staff on the negotiated teacher or certified scale and OT/PT's will be eligible for a one-time payment based on the number of accumulated legacy sick leave days the employee has at the time of termination of employment. Legacy leave was established on October 9, 2011 when the new teacher contract was approved. The maximum benefit that will be allowed for any one teacher or OT/PT is calculated between \$169.15 as a daily rate for a person with 15 years of longevity to \$211.43 as a daily rate for a person who has 25 years of experience. For all other eligible staff, it will be based on a rate of 1/180 of the MA lane, step 4, of the 2010-2011 Teacher's Salary Schedule. This rate will then be multiplied by the number of accumulated sick leave days the employee has at the time of termination of employment, but will not exceed 180 days. Administrators may accumulate up to 246 days at a rate of 1/180 of the MA + 45 lane, step 4, of the Teacher's Salary Schedule. At 15 years of service this payment will be 80% of that amount. For each subsequent year the payment will increase 2% through the 25<sup>th</sup> year of service, at which time the employee will receive 100% of that payment. The maximum payment an administrator can receive under this policy will be limited to 95% of their last contract. To be eligible for the plan an employee must have 15 years of continuous service to the district, and be age 55 or older or have been determined eligible for full retirement benefits from either NDPERS or TFFR. For the year ended June 30, 2012 the school district had 52 employees who received this benefit at a cost to the school district of \$1,635,682.

**BOARD OF EDUCATION OF THE CITY OF FARGO**

Notes to the Financial Statements - Continued

**NOTE 23: TRANSFERS**

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2012:

Fund	Transfer In	Transfer Out	Explanation
General Fund	\$ 891,610	\$ 8,919,397	To finance programs in other funds
Student Activities	3,711,180	-	Eliminate deficits
Food Service	-	250,000	Reimburse expenses paid by district
Debt Service	4,955,983	-	Bond principal & interest transfers
District Building Authority-Capital Projects	4,872,795	7,919,436	Bond principal & Interest transfers
District Building Authority-Debt Service	2,657,265	-	Bond principal & Interest transfers
<b>Total Transfers</b>	<b>\$17,088,833</b>	<b>\$17,088,833</b>	

Transfers are used to move revenues from the fund with collection authorization to the debt service funds as principal and interest payments become due, to close out old debt service funds and to move unrestricted fund revenues to finance various programs that the school district must account for in other funds.

**NOTE 24: SUBSEQUENT EVENT – BOND ISSUANCE**

On September 25, 2012, for the purpose of reducing the rate of interest and interest costs associated with the 2004B Limited Tax Bond, the Board of Education authorized to be issued Limited Tax Refunding Bonds, Series 2012 in the principal amount of \$25,425,000. At the October 9, 2012 board meeting this sale was approved.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Original Budget	Final Budget	2012 Actual	Variance With Final Budget	2011
<b>Revenues:</b>					
Property Taxes	\$ 50,642,629	\$ 50,642,629	\$ 50,180,924	\$ (461,705)	\$ 49,354,995
Other Local Sources	3,107,418	3,956,758	3,589,010	(367,748)	3,795,280
State Sources	67,247,954	67,324,454	67,005,931	(318,523)	70,130,430
Federal Sources	10,506,745	11,041,992	10,163,294	(878,698)	13,882,861
Other Sources	180,500	180,494	157,217	(23,277)	183,863
<b>Total Revenues</b>	<b>\$ 131,685,246</b>	<b>\$ 133,146,327</b>	<b>\$ 131,096,376</b>	<b>\$ (2,049,951)</b>	<b>\$ 137,347,429</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	\$ 64,083,338	\$ 66,457,041	\$ 71,834,837	\$ (5,377,796)	\$ 58,681,429
Special Education	19,674,072	20,157,931	19,923,220	234,711	19,494,477
Vocational Education	5,755,037	5,792,237	4,920,490	871,747	10,067,475
Adult Education	666,000	699,780	692,645	7,135	625,248
<b>Total Instruction</b>	<b>\$ 90,178,447</b>	<b>\$ 93,106,989</b>	<b>\$ 97,371,192</b>	<b>\$ (4,264,203)</b>	<b>\$ 88,868,629</b>
<b>Support Services:</b>					
Pupil Services	\$ 4,021,050	\$ 3,904,550	\$ 3,844,846	\$ 59,704	\$ 3,757,304
Instructional Staff Services	5,648,783	5,956,694	5,603,234	353,460	5,293,051
General Administration Services	2,151,430	2,220,405	2,110,952	109,453	2,399,784
School Administration Services	8,308,547	8,259,468	8,052,413	207,055	7,426,131
Business Services	2,312,959	2,271,459	2,175,965	95,494	2,361,221
Operations and Maintenance	12,265,740	11,489,588	11,340,987	148,601	9,460,194
Pupil Transportation Services	1,907,063	1,908,063	1,795,712	112,351	1,820,292
Extracurricular	151,275	149,275	142,584	6,691	141,585
Community Services	222,174	258,507	246,550	11,957	234,438
<b>Total Support Services</b>	<b>\$ 36,989,021</b>	<b>\$ 36,418,009</b>	<b>\$ 35,313,243</b>	<b>\$ 1,104,766</b>	<b>\$ 32,894,000</b>
<b>Capital Outlay</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,328,212</b>
<b>Debt Service:</b>					
Principal Retirement	\$ -	\$ -	\$ -	\$ -	\$ 234,000
Interest on Long-Term Debt	-	-	-	-	8,892
<b>Total Debt Service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 242,892</b>
<b>Total Expenditures</b>	<b>\$ 127,167,468</b>	<b>\$ 129,524,998</b>	<b>\$ 132,684,435</b>	<b>\$ (3,159,437)</b>	<b>\$ 125,333,733</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 4,517,778</b>	<b>\$ 3,621,329</b>	<b>\$ (1,588,059)</b>	<b>\$ (5,209,388)</b>	<b>\$ 12,013,696</b>
<b>Other Financing Sources (Uses):</b>					
Sale of Capital Assets	\$ 1,141,741	\$ 1,141,741	\$ 1,209,903	\$ 68,162	\$ 8,629
Transfers In	427,000	1,171,223	891,610	(279,613)	830,451
Transfers Out	(9,066,418)	(9,066,418)	(8,919,397)	147,021	(8,390,090)
<b>Total Other Financing Sources and Uses</b>	<b>\$ (7,497,677)</b>	<b>\$ (6,753,454)</b>	<b>\$ (6,817,884)</b>	<b>\$ (64,430)</b>	<b>\$ (7,551,010)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (2,979,899)</b>	<b>\$ (3,132,125)</b>	<b>\$ (8,405,943)</b>	<b>\$ (5,273,818)</b>	<b>\$ 4,462,686</b>
<b>Fund Balance - July 1</b>	<b>\$ 35,118,708</b>	<b>\$ 35,118,708</b>	<b>\$ 35,118,708</b>	<b>\$ -</b>	<b>\$ 30,656,022</b>
<b>Fund Balance - June 30</b>	<b>\$ 32,138,809</b>	<b>\$ 31,986,583</b>	<b>\$ 26,712,765</b>	<b>\$ (5,273,818)</b>	<b>\$ 35,118,708</b>

The accompanying notes to the required supplementary information are an integral part of these financial statements.

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BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2012

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC 57-15-31.1.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

SCHEDULE OF FUND ACTIVITY  
For the Year Ended June 30, 2012

	Balance 7-01-11	Revenue	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 6-30-12
(10) General Fund	\$ 35,118,708	\$ 131,096,376	\$ 891,610	\$ 1,209,903	\$ 8,919,397	\$ 132,684,435	\$ 26,712,765
<u>Special Revenue Funds:</u>							
(50) Food Service	\$ 2,673,729	\$ 5,801,972	\$ -	\$ 500	\$ 250,000	\$ 5,288,480	\$ 2,937,721
(60) Student Activities	-	430,823	3,711,180	-	-	4,142,003	-
Total Special Revenue Funds	\$ 2,673,729	\$ 6,232,795	\$ 3,711,180	\$ 500	\$ 250,000	\$ 9,430,483	\$ 2,937,721
<u>Debt Service Funds:</u>							
(40) District	\$ -	\$ -	\$ 4,955,983	\$ -	\$ -	\$ 4,955,983	\$ -
<u>Building Authority:</u>							
(Project 000) Bond Fees	-	-	10,014	-	-	10,014	-
(E) Project 001 - 2006 Lease Revenue	10	-	397,764	-	-	397,774	-
(G) Project 007 - 2009 Lease Revenue	3	-	1,903,585	-	-	1,903,588	-
(K) Project 016 - 2009 Lease Revenue	-	-	345,902	-	-	345,902	-
Total Building Authority Debt Service	\$ 13	\$ -	\$ 2,657,265	\$ -	\$ -	\$ 2,657,278	\$ -
Total Debt Service Funds	\$ 13	\$ -	\$ 7,613,248	\$ -	\$ -	\$ 7,613,261	\$ -
<u>Capital Projects Funds:</u>							
(30) District	\$ 11,632,833	\$ 8,509,272	\$ -	\$ 250,000	\$ 7,919,436	\$ 3,586,707	\$ 8,885,962
<u>Building Authority:</u>							
(J) 05 Rfdg (98 Const)	1,405	-	4,872,795	-	-	4,874,200	-
Total Capital Projects Funds	\$ 11,634,238	\$ 8,509,272	\$ 4,872,795	\$ 250,000	\$ 7,919,436	\$ 8,460,907	\$ 8,885,962
Total Governmental Funds	\$ 49,426,688	\$ 145,838,443	\$ 17,088,833	\$ 1,460,403	\$ 17,088,833	\$ 158,189,086	\$ 38,536,448
<u>Internal Service Fund:</u>							
(80) Health Insurance	\$ 9,399,443	\$ 13,734,467	\$ -	\$ -	\$ -	\$ 14,658,943	\$ 8,474,967
<u>Agency Funds:</u>							
(70) Agency Fund	\$ -	\$ 4,227,404	\$ -	\$ -	\$ -	\$ 4,227,404	\$ -
(90) Evaluation Training Center	-	1,729,862	-	-	-	1,729,862	-
Total Agency Funds	\$ -	\$ 5,957,266	\$ -	\$ -	\$ -	\$ 5,957,266	\$ -
Total All Funds	\$ 58,826,131	\$ 165,530,176	\$ 17,088,833	\$ 1,460,403	\$ 17,088,833	\$ 178,805,295	\$ 47,011,415

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE AND DEBT SERVICE FUNDS  
June 30, 2012 (Summarized Comparative Totals at June 30, 2011)

	Food Service	Student Activities	Debt Service	Total	
				2012	2011
<u>ASSETS</u>					
Cash and Investments	\$ 3,060,856	\$ 29,592	\$ -	\$ 3,090,448	\$ 2,870,112
Investment with Fiscal Agent	-	-		-	13
Receivables:					
Accounts	319	60	-	379	778
Inventories	24,248	-	-	24,248	12,482
<b>Total Assets</b>	<b>\$ 3,085,423</b>	<b>\$ 29,652</b>	<b>\$ -</b>	<b>\$ 3,115,075</b>	<b>\$ 2,883,385</b>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 10,701	\$ 29,652	\$ -	\$ 40,353	\$ 97,478
Salaries and Benefits Payable	7,338	-	-	7,338	6,642
Deferred Revenues	129,663	-	-	129,663	105,523
<b>Total Liabilities</b>	<b>\$ 147,702</b>	<b>\$ 29,652</b>	<b>\$ -</b>	<b>\$ 177,354</b>	<b>\$ 209,643</b>
<u>Fund Balances:</u>					
<u>Nonspendable:</u>					
Inventories	\$ 8,393	\$ -	\$ -	\$ 8,393	6,866
<u>Restricted:</u>					
Debt Service	-	-	-	-	13
<u>Committed:</u>					
Food Service	2,929,328	-	-	2,929,328	2,666,863
<b>Total Fund Balances</b>	<b>\$ 2,937,721</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,937,721</b>	<b>\$ 2,673,742</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,085,423</b>	<b>\$ 29,652</b>	<b>\$ -</b>	<b>\$ 3,115,075</b>	<b>\$ 2,883,385</b>

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE AND DEBT SERVICE FUNDS  
For the Years Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Food Service	Student Activities	Debt Service	Total	
				2012	2011
<u>Revenues:</u>					
Local Sources	\$ 3,504,099	\$ 430,823	\$ -	\$ 3,934,922	\$ 3,711,283
State Sources	51,725	-	-	51,725	51,494
Federal Sources	2,246,148	-	-	2,246,148	2,068,652
<b>Total Revenues</b>	<b>\$ 5,801,972</b>	<b>\$ 430,823</b>	<b>\$ -</b>	<b>\$ 6,232,795</b>	<b>\$ 5,831,429</b>
<u>Expenditures:</u>					
Current:					
Food Service Outlays	\$ 5,288,480	\$ -	\$ -	\$ 5,288,480	\$ 5,425,103
Extracurricular	-	4,142,003	-	4,142,003	3,794,825
Debt Service					
Principal	-	-	3,590,000	3,590,000	3,476,000
Interest and Service Charges	-	-	4,023,261	4,023,261	4,137,619
<b>Total Expenditures</b>	<b>\$ 5,288,480</b>	<b>\$ 4,142,003</b>	<b>\$ 7,613,261</b>	<b>\$ 17,043,744</b>	<b>\$ 16,833,547</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 513,492	\$ (3,711,180)	\$ (7,613,261)	\$ (10,810,949)	\$ (11,002,118)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ -	\$ 3,711,180	\$ 7,613,248	\$ 11,324,428	\$ 11,018,153
Sale of items	500	-	-	500	-
Transfers Out	(250,000)	-	-	(250,000)	(3,528,440)
<b>Total Other Financing Sources and Uses</b>	<b>\$ (249,500)</b>	<b>\$ 3,711,180</b>	<b>\$ 7,613,248</b>	<b>\$ 11,074,928</b>	<b>\$ 7,489,713</b>
<b>Net Change in Fund Balances</b>	<b>\$ 263,992</b>	<b>\$ -</b>	<b>\$ (13)</b>	<b>\$ 263,979</b>	<b>\$ (3,512,405)</b>
Fund Balance - July 1	\$ 2,673,729	\$ -	\$ 13	\$ 2,673,742	\$ 6,186,147
<b>Fund Balance - June 30</b>	<b>\$ 2,937,721</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,937,721</b>	<b>\$ 2,673,742</b>

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
FOOD SERVICE FUND  
For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Original and Final Budget	2012 Actual	Variance With Final Budget	2011
<u>Revenues:</u>				
Local Sources	\$ 3,491,400	\$ 3,504,099	\$ 12,699	\$ 3,319,661
State Sources	50,000	51,725	1,725	51,494
Federal Sources	1,924,700	2,246,148	321,448	2,068,652
Total Revenues	<u>\$ 5,466,100</u>	<u>\$ 5,801,972</u>	<u>\$ 335,872</u>	<u>\$ 5,439,807</u>
<u>Expenditures:</u>				
Current:				
School Food Services	\$ 5,406,818	\$ 5,288,480	\$ 118,338	\$ 5,425,103
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 59,282</u>	<u>\$ 513,492</u>	<u>\$ 454,210</u>	<u>\$ 14,704</u>
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ (250,000)	\$ (250,000)	\$ -	\$ (160,000)
Sale of District Items	-	500	500	-
Total Other Financing Sources and Uses	<u>\$ (250,000)</u>	<u>\$ (249,500)</u>	<u>\$ 500</u>	<u>\$ (160,000)</u>
Net Change in Fund Balances	<u>\$ (190,718)</u>	<u>\$ 263,992</u>	<u>\$ 454,710</u>	<u>\$ (145,296)</u>
Fund Balance - July 1	<u>\$ 2,673,729</u>	<u>\$ 2,673,729</u>	<u>\$ -</u>	<u>\$ 2,819,025</u>
Fund Balance - June 30	<u><u>\$ 2,483,011</u></u>	<u><u>\$ 2,937,721</u></u>	<u><u>\$ 454,710</u></u>	<u><u>\$ 2,673,729</u></u>

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
STUDENT ACTIVITIES FUND  
For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Original and Final Budget	2012 Actual	Variance With Final Budget	2011
<u>Revenues:</u>				
Local Sources	\$ 463,200	\$ 430,823	\$ (32,377)	\$ 390,291
<u>Expenditures:</u>				
<u>Current:</u>				
Extracurricular	\$ 4,424,410	\$ 4,142,003	\$ 282,407	\$ 3,794,825
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,961,210)	\$ (3,711,180)	\$ 250,030	\$ (3,404,534)
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 3,961,210	\$ 3,711,180	\$ (250,030)	\$ 3,404,534
Net Change in Fund Balances	\$ -	\$ -	\$ -	\$ -
Fund Balance - July 1	\$ -	\$ -	\$ -	\$ -
Fund Balance - June 30	\$ -	\$ -	\$ -	\$ -

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND - FUNDS 40 & PROJECTS 000-018  
For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Original Budget	Final Budget	2012 Actual	Variance With Final Budget	2011
<u>Revenues:</u>					
Local Sources	\$ -	\$ -	\$ -	\$ -	\$ 1,331
<u>Expenditures:</u>					
<u>Debt Service:</u>					
Principal	\$ 3,476,000	\$ 3,476,000	\$ 3,590,000	\$ (114,000)	\$ 3,476,000
Interest	4,142,719	4,142,719	4,023,261	119,458	4,137,619
Total Expenditures	\$ 7,618,719	\$ 7,618,719	\$ 7,613,261	\$ 5,458	\$ 7,613,619
Excess (Deficiency) of Revenues Over Expenditures	\$ (7,618,719)	\$ (7,618,719)	\$(7,613,261)	\$ 5,458	\$(7,612,288)
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 7,618,719	\$ 7,618,719	\$ 7,613,248	\$ (5,471)	\$ 7,613,619
Transfers Out	-	-	-	-	(3,368,440)
Total Other Financing Sources and Uses	\$ 7,618,719	\$ 7,618,719	\$ 7,613,248	\$ (5,471)	\$ 4,245,179
Net Change in Fund Balances	\$ -	\$ -	\$ (13)	\$ (13)	\$(3,367,109)
Fund Balance - July 1	\$ 13	\$ 13	\$ 13	\$ -	\$ 3,367,122
Fund Balance - June 30	\$ 13	\$ 13	\$ -	\$ (13)	\$ 13

BOARD OF EDUCATION OF THE CITY OF FARGO  
Fargo, North Dakota

BUDGETARY COMPARISON SCHEDULE  
CAPITAL PROJECTS FUND - FUNDS 30-39 & J (PROJECT 008)  
For the Year Ended June 30, 2012 (Summarized Comparative Totals 2011)

	Original Budget	Final Budget	2012 Actual	Variance With Final Budget	2011
<u>Revenues:</u>					
Local Sources	\$ 8,221,500	\$ 8,221,500	\$ 8,509,272	\$ 287,772	\$ 8,458,869
<u>Expenditures:</u>					
<u>Current:</u>					
Capital Outlay	\$ 7,929,000	\$ 7,929,000	\$ 3,355,787	\$ 4,573,213	\$ 16,142,311
Operations and Maintenance	335,000	335,000	159,551	175,449	117,914
<u>Debt Service:</u>					
Principal Retirement	4,605,000	4,605,000	4,605,000	-	4,225,000
Interest on Long-Term Debt	544,200	544,200	340,569	203,631	482,070
Total Expenditures	\$ 13,413,200	\$ 13,413,200	\$ 8,460,907	\$ 4,952,293	\$ 20,967,295
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,191,700)	\$ (5,191,700)	\$ 48,365	\$ 5,240,065	\$(12,508,426)
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets	\$ 250,000	\$ 250,000	\$ 250,000	\$ -	\$ 246,000
Transfers In	4,874,200	4,874,200	4,872,795	(1,405)	7,999,953
Transfers Out	(7,919,451)	(7,919,451)	(7,919,436)	15	(7,930,027)
Total Other Financing Sources and Uses	\$ (2,795,251)	\$ (2,795,251)	\$ (2,796,641)	\$ (1,390)	\$ 315,926
Net Change in Fund Balances	\$ (7,986,951)	\$ (7,986,951)	\$ (2,748,276)	\$ 5,238,675	\$(12,192,500)
Fund Balance - July 1	\$ 11,634,238	\$ 11,634,238	\$ 11,634,238	\$ -	\$ 23,826,738
Fund Balance - June 30	\$ 3,647,287	\$ 3,647,287	\$ 8,885,962	\$ 5,238,675	\$ 11,634,238

BOARD OF EDUCATION OF THE CITY OF FARGO  
 Fargo North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title or Cluster Title	Federal CFDA Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>		
<b><u>Passed through the State Department of Public Instruction:</u></b>		
National School Lunch Program	10.555	*** \$ 1,427,182
National School Lunch Program - Commodities	10.555	** 262,076
School Breakfast Program	10.553	309,995
<b>Child Nutrition Cluster</b>		*** <u>\$ 1,999,253</u>
Child and Adult Care Food Program	10.558	\$ 7,368
Fresh Fruit and Vegetable Program	10.582	<u>192,194</u>
Total Department of Agriculture		<u>\$ 2,198,815</u>
<b><u>U.S. DEPARTMENT OF EDUCATION:</u></b>		
<b><u>Passed through the State Department of Public Instruction:</u></b>		
Adult Education - Basic Grants to States	84.002	\$ 110,878
Title I Grants to Local Education Agencies	84.010	*** 3,587,747
Title I Grants to Local Education Agencies, Recovery Act	84.389A	*** 554,221
<b>Title I Cluster</b>		<u>\$ 4,141,968</u>
Special Education-Grants to States	84.027	*** \$ 2,691,524
Special Education-Preschool Grants	84.173	59,859
<b>Special Education Cluster</b>		*** <u>\$ 2,751,383</u>
Even Start-State Educational Agencies	84.213	\$ 197,230
Twenty First Century Community Learning Centers	84.287C	*** 1,207,435
English Language Acquisition Grants	84.365A	99,358
Improving Teacher Quality State Grants	84.367A	*** 1,639,706
Education Technology State Grants, Recovery Act	84.386A	36,590
ARRA School Improvement	84.388A	*** 395,463
Education Jobs Fund	84.410	32,605
<b><u>Passed through the Department of Career &amp; Technical Education:</u></b>		
Career and Technical Education - Basic Grants to States	84.048A	<u>234,785</u>
Total Department of Education		<u>\$ 10,847,401</u>
<b><u>U.S. DEPARTMENT OF HUMAN SERVICES:</u></b>		
<b><u>Passed through State Department of Public Instruction:</u></b>		
Refugee and Entrant Assistance-Discretionary Grants	93.576	\$ 46,140
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>28,363</u>
Total U.S. Department of Human Services		<u>\$ 74,503</u>
Total Expenditures of Federal Awards		<u><u>\$ 13,120,719</u></u>

\*\* - noncash assistance

\*\*\* - major program

**NOTE 1: BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Board of Education of the City of Fargo under programs of the federal government for the year ended June 30, 2012. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Board of Education of the City of Fargo, it is not intended to and does not present the financial position or changes in net assets of the Board of Education of the City of Fargo.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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

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Governing Board  
Board of Education of the City of Fargo  
Fargo, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the City of Fargo, as of and for the year ended June 30, 2012, which collectively comprise the Board of Education of the City of Fargo's basic financial statements and have issued our report thereon dated October 11, 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 the Board of Education of the City of Fargo is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board of Education of the City of Fargo'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 the Board of Education of the City of Fargo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of the City of Fargo's internal control over financial reporting.

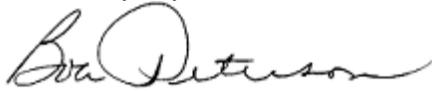
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 first paragraph of this section 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 previously.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of 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.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

October 11, 2012

STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
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Local Government Division:  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
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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

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Independent Auditor's Report

Board of Education of the City of Fargo  
Fargo, North Dakota 58102

**Compliance**

We have audited the Board of Education of the City of Fargo'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 the Board of Education of the City of Fargo's major federal programs for the year ended June 30, 2012. The Board of Education of the City of Fargo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board of Education of the City of Fargo's management. Our responsibility is to express an opinion on the Board of Education of the City of Fargo'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 the Board of Education of the City of Fargo'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 of the Board of Education of the City of Fargo's compliance with those requirements.

In our opinion, the Board of Education of the City of Fargo 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 the Board of Education of the City of Fargo 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 the Board of Education of the City of Fargo's internal control over compliance with the 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 the Board of Education of the City of Fargo's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of 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.

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

October 11, 2012

