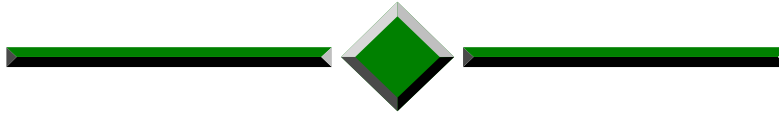


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**June 4, 2012**

**To: The School Board, Citizens, and Employees of Prior Lake-Savage Area Schools**

We respectfully submit the 2012-13 Preliminary Budget of Independent School District No. 719, Prior Lake-Savage Area Schools. The report contains all of the funds of the District in conformity with generally accepted accounting principles (GAAP) for defining the reporting entity. The District's annual financial reports are prepared pursuant to School Board policy and Minnesota State Statutes. Budgetary control is maintained by the District's business office.

We are proud to publish and disseminate budget information to the Board of Education, our community, and others. We welcome the opportunity to present and discuss operational plans and related financial impact with all interested parties. Interaction among interested groups consistently leads to operational and educational improvements for Independent School District No. 719. To stimulate and encourage interaction, we continuously evaluate. When possible, we increase and improve information quality. The budget document is the primary tool to present information in addition to our annual audit report.

This Preliminary Budget represents a projection of revenue and expenditures for the 2012-13 fiscal year along with support documentation and analysis. This report is presented in four sections: introductory, organizational, financial, and informational. The introductory section includes an executive summary and members of the School Board. The organizational section includes major goals and objectives for the District, an organizational chart, and financial policies and practices. The financial section includes presentation of the budgets for all Governmental and Proprietary funds of the District. The informational section includes revenue and expenditure budget summary data sorted by a variety of elements, building and program goals and objectives, and detail expenditure reports for programs and building budgets.

In accordance with the School Board approved Strategic Road Map, the District plan is maintain the District fund balance at the Board policy level so that all available resources are used to provide educational opportunities to students. The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability.

### **DESCRIPTION OF DISTRICT**

The District is a public educational system serving a 46 square mile area located in the southwestern Twin Cities area. District boundaries encompass geographic portions of Scott County. The cities of Prior Lake and Savage are within the District's boundaries. District facilities for 2012-13 include an early childhood and half day kindergarten center, six elementary schools, two middle schools, a high school, an area learning center and a district service center.

### **ECONOMIC CONDITION AND OUTLOOK**

With the exception of voter approved levy referenda, the District is dependent on the State of Minnesota for its revenue authority. In 2011, the district received \$50 ppu and for 2012-13 the legislature allocated an additional \$50 ppu. In addition, the district will receive literacy grant revenue of approximately \$468,000 for students in third and fourth grade showing growth and

proficiency on the MCA reading tests. The 2009 legislature approved a 0% increase for both 2009-10 and 2011-12 in the General Education formula. For 2012-13, the district will receive 64% of state entitlements in the current year and 36% the following year. In 2011-12 the district received 60% and 40% correspondingly, in 2010-11, the district received 70% and 30%, in 2009-10 the district received 73% and 27% and previous to 2009-10 districts received 90% and 10%. This change had a significant impact on the districts cash flow. The funding formula has been below the current annual rate of inflation for the last twenty years. Experience demonstrates that legislated revenue increases are not sufficient to meet the demands posed by the rate of inflation. As a result of these pressures, the District has had to rely on property tax referenda to support its educational programs. The District request to replace the two levies scheduled to sunset in 2009-10 levies with \$1,051 per pupil unit in operating referendum was successful in November 2008. The increase of \$210 per pupil unit was used for operating costs to open Redtail Ridge Elementary and Twin Oaks pool in 2009-10. The successful levy referenda votes have allowed the District to move forward by putting plans in place to improve the quality of education.

**DISTRICT POPULATION**

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. However the last five years, the District has averaged a 2.3 percent increase in students. Budgeted enrollment for the 2012-13 school year anticipates a slight decline from 2011-12 at 7,134.

**ENROLLMENT PROJECTIONS**

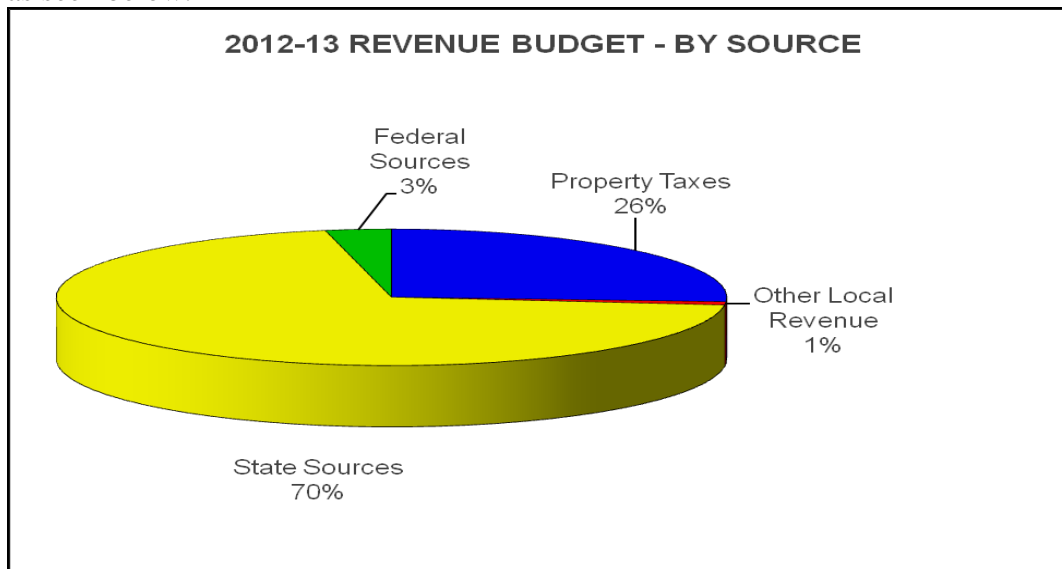
	<b>09-10 ADM</b>	<b>09-10 WADM</b>	<b>10-11 ADM</b>	<b>10-11 WADM</b>	<b>11-12 ADM</b>	<b>11-12 WADM</b>	<b>12-13 ADM</b>	<b>12-13 WADM</b>
<b>PRE-K</b>	52	65	54	68	42	46	40	44
<b>K- HANDICAPPED</b>	23	23	23	23	21	21	20	27
<b>KINDERGARTEN</b>	441	270	430	263	444	272	430	277
<b>GRADES 1 TO 3</b>	1,574	1,754	1,539	1,716	1,556	1,735	1,476	1,646
<b>GRADES 4 TO 6</b>	1,676	1,777	1,649	1,748	1,686	1,787	1,656	1,755
<b>GRADES 7 TO 12</b>	3,227	4,195	3,327	4,323	3,437	4,468	3,512	4,566
<b>TOTAL</b>	<b>6,993</b>	<b>8,084</b>	<b>7,024</b>	<b>8,142</b>	<b>7,186</b>	<b>8,329</b>	<b>7,134</b>	<b>8,315</b>

**FINANCIAL INFORMATION**

District administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District accounting system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgment by management. We believe the District's internal control system is adequate to safeguard assets and provide reasonable assurance that transactions are properly recorded.

The District's annual financial reports are prepared pursuant to School Board policy and Minnesota State Statutes. The audited financial reports are required to be filed with both the Minnesota Department of Education and the State Auditor by November 30, of the subsequent fiscal year. These statements are presented on the same basis as those required by the Department of Education's Uniform Financial Accounting and Reporting System (UFARS). An annual budget is adopted by the School Board for all funds. Budgetary control is maintained by the District's business office. Monthly reports are reviewed by management personnel and the School Board.

Independent School District No.719's sources of revenue for all funds are property taxes, state aid, federal aid, and other local revenue. The majority of the revenue is received from state aid as seen below.

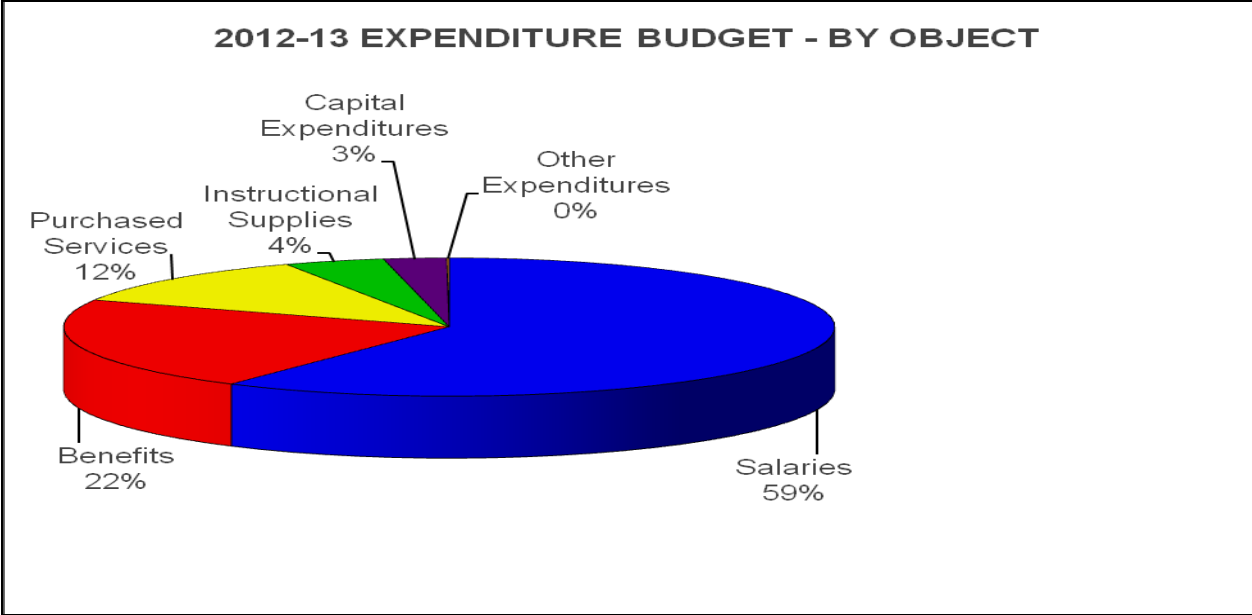


Independent School District No. 719's expenditures are allocated to the following: salaries, benefits, purchased services, supplies and materials, capital expenditures, other expenditures, and debt service. The majority of the expenditures are in salaries and benefits as seen below.

**FINANCIAL INFORMATION – BY FUND**

**General Fund**

The General Fund is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund.



<u>GENERAL FUND</u>	<u>2012-13 BUDGET</u>	<u>2011-12 EST. ACTUAL</u>	<u>NET CHANGE</u>	<u>%</u>
<b>Total Revenues and transfers in</b>	<b>\$67,016,849</b>	<b>\$65,152,419</b>	<b>\$1,864,430</b>	<b>2.7%</b>
<b>Total Expenditures and transfers out</b>	<b>\$67,723,941</b>	<b>\$64,682,554</b>	<b>\$3,041,387</b>	<b>4.5%</b>
<b>Total Excess/(Deficiency)</b>	<b>\$(707,092)</b>	<b>\$469,865</b>		

\*Includes both reserved and unreserved revenues and expenditures, transfers in and transfers out of funds.

The district is budgeting based on the allocated formula allowance of \$5,224 per adjusted marginal cost pupil unit for the 2012-13 year which is a 1% increase from 2011-12. In 2011-12, the district received \$50 per adjusted marginal cost pupil unit, a 1% increase from 2010-11. The district has designated dollars for 2012-13 to assist with district cash flow due to the reduction of the state aid payment schedule of 64/36. Estimated revenues total \$64,986,988, an increase of \$948,127 over fiscal year 2012. The estimated revenue increase is mainly due to two components: the additional \$50 ppu and new revenue allocated to the district for the Literacy Grant. The Literacy Grant allocates dollars based on growth and proficiency on the MCA reading tests in grades three and four. \$580 for students in third and fourth grade is allotted to districts that meet the goals of the grant. Estimated expenditures total \$65,076,080. Changes in expenditures are due to contract settlements and additional teaching positions at the secondary level. For 2012-13, the School Board approved positions at all buildings that include two dean

of students at PLHS, counselor positions at both Middle Schools, positions in technology, human resources and custodial. The School Board also approved one-time technology funding to update computers for all staff in the district and adding two computer labs at PLHS. In addition, the district will be installing wireless access at PLHS and both Middle Schools. The growth in remaining expenditures is consistent with regional inflationary trends.

The estimated unassigned fund balance is \$3,422,407, the assigned fund balance for the opening of Redtail Ridge Elementary School is reduced to \$0, as planned. The assigned fund balance for cash flow is \$1,500,000. Other assigned fund balances for Federal Special Ed Stimulus, 2-year program additions, class size reduction and innovative programs is \$1,010,250. The estimated restricted fund balance for the area learning center, learning and development, gifted and talented, basic skills, staff development, operating capital, deferred maintenance, safe schools, and health and safety is \$1,594,121.

The District's unassigned fund balance trend offers the single best measure of the District's overall financial health. The estimated unassigned fund balance on June 30, 2013 represents 8.45% of annual expenditures or about five weeks of normal operating expenditures. The District closely monitors the General Fund unreserved fund balance through use of a detailed financial planning model, initiating two budget revisions during the year and with monthly budget analysis. The School Board fund balance policy is to maintain a five to eight percent fund balance in the Unreserved General Fund. The district will be within the fund balance policy guidelines at the end of 2012-13.

### **Special Revenue Funds**

The Special Revenue Funds account for the Food Service and Community Service Funds. The Food Service Fund is used to record financial activities of a school district's food service program which includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school. The Community Service Fund is used to record all financial activities of the Community Service Program. The Community Service Fund is comprised of four components, each with its own fund balance. The four components are Community Service, Community Education, Early Childhood Family Education, and School Readiness.

The June 30, 2013 estimated combined fund balance is \$797,748 a decrease of \$146,414 from fiscal year 2012. The decrease in the fund balance is due to an intentional reduction in Community Service fund balances. The District intends to maintain Food Service and Community Services fund balances below the range of the 25% guideline set by the state. This fund balance requirement will sunset in FY2014.

### **Food Service Fund**

The estimated June 30, 2013 fund balance is \$382,554 a decrease of \$9,195 from fiscal year 2012. Estimated revenues increase by \$98,400 and estimated expenditures increase by \$108,425 from the previous year. The increase in revenues is primarily due to an increase of 10 cents in lunch prices for all grade levels. The district has a new requirement to serve ½ cup fruit or vegetable for each reimbursable meal. Previously, the district was only required to offer the fruits and vegetables. The increase in expenditures is primarily attributed increased cost of food, fuel, and supplies and an intentional monitoring of the Food Service fund balance.

### **Community Service Fund**

The estimated June 30, 2012 fund balance is \$415,194, a decrease of \$137,219 from fiscal year 2012. Estimated revenues decrease by \$146,015 and estimated expenditures decrease by \$200,916 from the previous year. The decrease in revenues is primarily a result of a decrease in recorded population in the district according to the 2010 census. The decrease in expenditures is due to program expenditure adjustments.

### **Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital, and whether for initial or refunding bonds. The estimated June 30, 2013, fund balance is \$2,823,476, an increase of \$187,287 from fiscal year 2012. Estimated revenues decrease by \$5,730,454 and estimated expenditures decrease by \$5,350,691 from the previous year. The decrease is due to a refunding bond held in escrow and then paid in FY 2012. In 2011-12, the 2005 technology levy was refunded to reduce future interest expense and is held in escrow to be paid in 2012-13. Levy revenues are based on levying 105% of the principal and interest schedule. The fund balance is monitored through a state formula and systematically reduced according to the state-mandated formula. The expenditure budget is based on the payment schedule of bond principal and interest on the general obligation bonds issued from 2000 through 2007.

### **Capital Project-Building Construction Fund**

The Capital Project-Building Construction Fund is used to record all operations of a district's building construction program that are funded by the sale of bonds, by capital loans, or the Alternative Bonding Program. The District issued \$55 million in General Obligation School Building Bonds to fund building improvements in May of 2005 and an additional \$12.1 million in General Obligation School Building Bonds in January of 2007 to fund Redtail Ridge Elementary School. The estimated June 30, 2013 fund balance will reduce this Fund to \$0, a decrease of \$304,211 from fiscal year 2012. The decrease in fund balance is due to the spending of bond proceeds.

### **Internal Service Fund**

In June 2011, the School Board approved the district to move to a self-insured model for health insurance. The premiums, claims and expenses are reflected in this fund. In addition, district HRA contributions to meet future contractual liabilities are accounted for in this fund. The fund balance is expected to increase by \$933,278 in 2012-13. Health insurance premiums make up the majority of the revenue in the fund. Health insurance claims and third-party administrative costs are the main expenditures.

### **Revocable Trust Fund**

The Revocable Trust Fund is used to account for reserve funds for the Other Post Employment Obligations (OPEB). The estimated June 30, 2013 fund balance is \$2,823,476 an increase of \$187,287 from fiscal year 2012. Estimated OPEB revenues of \$732,000 results in an increase due to the district levy for OPEB liabilities and estimated expenditures increase by \$6,670 from the previous year. The increase in fund balance is part of the long term plan to fully fund the district's OPEB liability.

## **CONCLUSION**

The 2012-13 Preliminary Budget reflects the board's plan to maintain the Districts Fund Balance at Board policy level so that all available resources are used to provide educational opportunities to students. The Board will continue efforts to maintain fund balance into the future via increased funding from the legislature, transparent budget planning, voter approved levies, and a combination of all of these options.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the District's Business Office staff. We would like to express our appreciation to the School Board for their interest and support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Respectfully submitted,

Julie Cink  
Director of Business Affairs



# INDEPENDENT SCHOOL DISTRICT NO. 719



## **BOARD OF EDUCATION**

Lee Shimek, Chair

Todd Sorensen, Vice-Chair

Stacy Ruelle , Clerk/Treasurer

Tom Anderson, Director

Michael Murray, Director

Eric Pratt, Director

Richard Wolf, Director

## **CENTRAL ADMINISTRATION**

Dr. Sue Ann Gruver, Superintendent

Julie Cink, Director of Business Affairs

See Strategic Road Map – Separate Page

Independent School District 719  
Organizational Chart

## INDEPENDENT SCHOOL DISTRICT NO. 719

### **ESTABLISHMENT, ADOPTION, AND MODIFICATION OF DISTRICT BUDGET**

It is the policy of Prior Lake-Savage Area Schools to establish its revenue and expenditure budgets in accordance with the applicable provisions of law. Budget planning is an integral part of program planning so that the annual budget will effectively express and implement school board goals and the priorities of the school district.

#### A. Establishment and Adoption of School District Budget

1. The superintendent or such other school official as designated by the superintendent or the school board shall prepare preliminary revenue and expenditure budgets for review by the school board or its designated committee or committees annually. The budget process shall involve input from stakeholders. The preliminary budgets shall be accompanied by such written commentary with detailed financial information as may be necessary for them to be clearly understood by the members of the school board and the public. The school board shall review the projected revenues and expenditures for the school district for the next fiscal year and make such adjustments in the expenditure budget as necessary to carry out the education program within the revenues projected.
2. Prior to adopting the initial budget for a school year, the school board must inform the principal or other responsible administrative authority at each site the amount of general education and referendum revenue that will be generated by the pupils in attendance at that site. These estimates may be adjusted in accordance with law.
3. The school district must maintain separate accounts to identify revenues and expenditures for each building. Expenditures shall be reported in compliance with Minnesota Statute.
4. Prior to July 1 of each year, the school board shall approve and adopt its initial revenue and expenditure budgets for the following school year. The adopted expenditure budget document shall be considered the school board's expenditure authorization for that school year. No funds may be expended for any purpose in any school year prior to the adoption of the budget document that authorizes that expenditure for that year or prior to adopting an amendment to that budget document by the school board to authorize that expenditure for that year.
5. The school district shall, prior to November 30 or one week after the school board acceptance of the final audit report, publish its adopted revenue and expenditure budgets for the current year, the actual revenues, expenditures and fund balances for the prior year, and the projected fund balances for the current year in a qualified newspaper of general circulation in the school district or on the district web site if the district publishes an announcement in the newspaper that includes the internet address where the information has been posted. The publication shall be made in the form prescribed by the Commissioner. A statement shall be included in the publication that the complete budget in detail may be inspected by any resident of the school district upon request to the superintendent. At the same time as this

publication, the school district shall publish the other information required by Minnesota Statute.

6. At the public hearing on the adoption of the school district's proposed property tax levy, the school board shall review its current budget and the proposed property taxes payable in the following calendar year.

B. Modification of School District Budget.

1. The school district's adopted expenditure budget shall be considered the school board's expenditure authorization for that school year.
2. If the administration determines that revisions or modifications in the adopted expenditure budget are advisable, the superintendent shall recommend the proposed changes to the school board. The proposed changes shall be accompanied by sufficient and appropriate background information on the revenue and policy issues involved to allow the school board to make an informed decision. A school board member may also propose modifications on that board member's own motion, provided the school board member is encouraged to review the proposed modifications with the superintendent prior to the proposal so that the administration may prepare necessary background materials for the school board prior to its consideration of those proposed modifications.
3. If sufficient funds are not included in the expenditure budget in a particular fund to allow the proposed expenditure, the school board must adopt an expenditure budget amendment to authorize that expenditure for that school year before funds may be expended from that fund. An amended expenditure shall not exceed the projected revenues available for that purpose in that fund.
4. The school district's revenue budget shall be amended from time to time during a fiscal year to reflect updated or revised revenue estimates. The superintendent shall make recommendations to the school board for appropriate revisions. If necessary, the school board shall also make necessary revisions in the expenditure budget if it appears that expenditures would otherwise exceed revenues and fund balances in a fund.

C. Implementation

1. The school board places the responsibility for administering the adopted budget with the superintendent. The superintendent may delegate duties related thereto to other school officials, but maintains the ultimate responsibility for this function.
2. The program-oriented budgeting system will be supported by a program-oriented accounting structure organized and operated on a fund basis as provided for in Minnesota statutes through UFARS.

3. The superintendent or the superintendent's designee is authorized to make payments of claims or salaries authorized by the adopted or amended budget prior to school board approval.
4. Supplies and capital equipment can be ordered prior to budget adoption only by authority of the school board. If additional personnel are provided in the proposed budget, actual hiring may not occur until the budget is adopted unless otherwise approved by the school board. Other funds to be expended in a subsequent school year may not be encumbered prior to budget adoption unless specifically approved by the school board.
5. The school district shall make such reports to the Commissioner as required relating to initial allocations of revenue, reallocations of revenue and expenditures of funds.

**INDEPENDENT SCHOOL DISTRICT 719  
Prior Lake - Savage Area Schools**

**BUDGET CALENDAR  
2011-12**

<u>Month</u>	<u>Date</u>	<u>Item</u>	<u>Responsibility</u>
July 2011	July/Oct	2010-11 Audit Commences	Auditor/Director of Business Affairs
August 2011	Aug 2	Preliminary 2-year budget plan discussion	Administration/Director of Business Affairs
September 2011	15-Sep	Levy Reports for the 2010 Payable 2011 Levy Due to the MDE	Director of Business Affairs
	26-Sep	Approve Budget Calendar	School Board
October 2011	Sept 26	Adopt the Preliminary 2011 Payable 2012 Levy Certification	School Board
	Oct 24	Preliminary 2-year budget plan discussion	School Board/Director of Business Affairs
	Oct/Nov	2010-11 Final Budget Update in Finance System	Director of Business Affairs/ Business Office
November 2011	Nov 14	Presentation of the 2010-11 Audit	
	Nov 28	Review 5 year Capital Facilities Plan	School Board/Administration
	Nov 30	Publish the 2010-11 Audit and the 2011-12 Budget on the District Website	Director of Business Affairs
	Nov	Building Site Review of Budget	Principals/Program Directors
December 2011	Dec 12	Adopt the Final 2011 payable 2012 Levy Certification	School Board
	Dec 12	Approve the 2011-12 Final Budget	School Board
	Dec 12	Long Range Plan Update	Director of Business Affairs
	Dec 12	Budget Reduction Plan (if necessary)	Finance Comm, Admin, Board
	Dec 12	Budget Reinstatement Plan (if necessary)	Finance Comm, Admin, Board
January 2012	Jan 23	Approve 2012-13 Budget Parameters and Budget Priorities	School Board Work Session
	Jan 23	Approve Budget Reduction Resolution (if necessary)	School Board
	Jan 23	New Program Recommendations Due from Principals & Dir. Of Curriculum, Instruction & Assessment	Director of Curriculum, Instruction & Assessment
	Jan 31	2012-13 Initial Building FTE, Equipment & Materials Allocations	Director of Business Affairs
	Jan/Feb	All Administrators Work on Budget Additions/Reductions	Administration
February 2012	Feb 27	Present 2012-13 Budget Plan	Administration
	Feb 27	Adopt Staff Reduction Resolution, (if necessary)	School Board
	Feb/Mar	All Administrators Work on Instructional, Capital, and FTE Budgets including Food Service & Comm Service	Administration
March 2012	Mar 12	Public Hearing on 2012-13 Budget Reduction Plan (if necessary)	School Board
	Mar 12	Approve Proposed ULOA's	School Board
	Mar 12	Textbook Adoption Finalized	Director of Curriculum, Instruction & Assessment
	Mar 31	All Budgets for All Funds Completed by Principals and Program Directors Due at the District Office	Principals & Program Directors
	Mar 31	FTE Budget by Department due at the District Office	Principals & Program Directors
April 2012	Apr 12	Cut Off Date for Issuance of PO's for the 2011-12 Budget	Administration
	Apr 9	Approve 2012-13 Budget Plan for All Funds	School Board
	Apr/May	2012-13 Preliminary Budget in Finance System	Director of Business Affairs/ Business Office
May 2012			