



3 0307 00075 8618

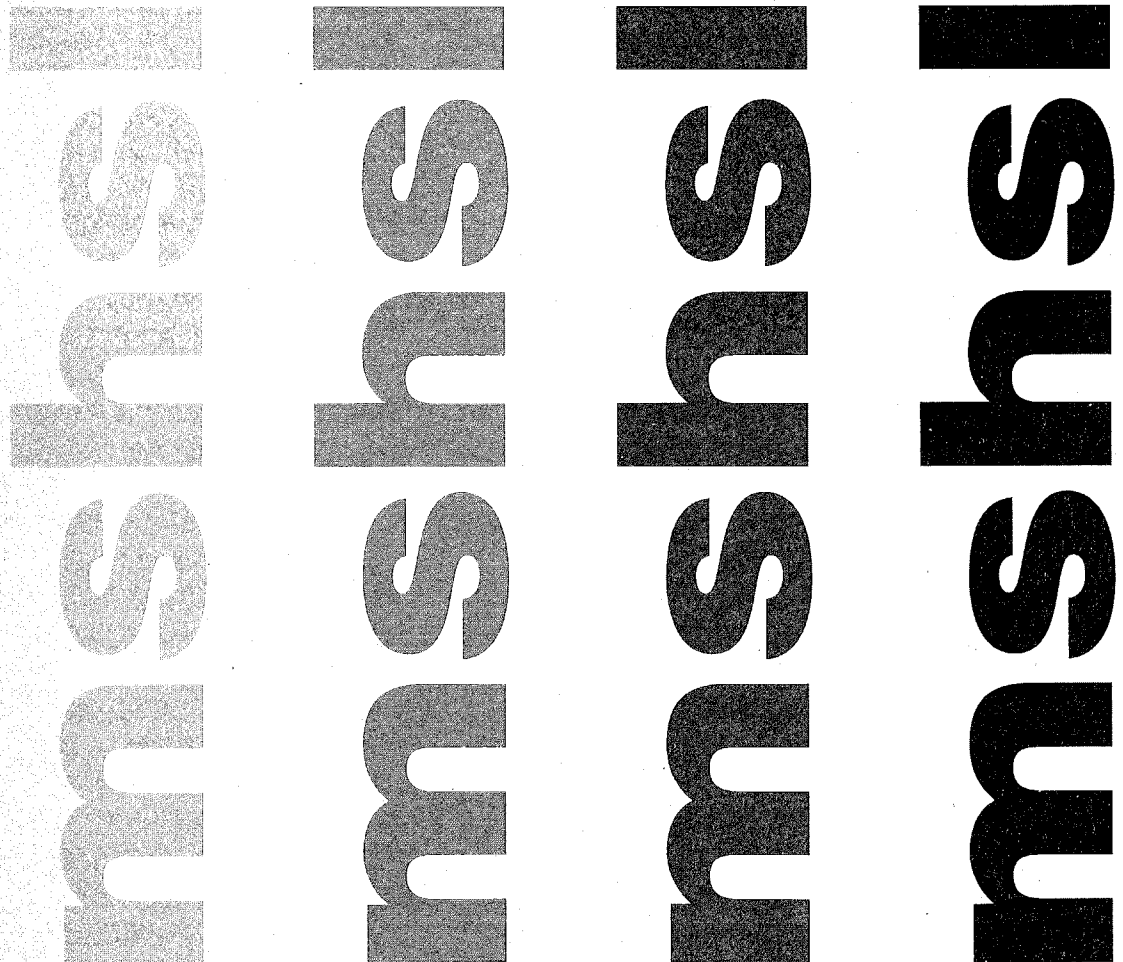
13 - 0013



MINNESOTA STATE HIGH SCHOOL LEAGUE BROOKLYN CENTER, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED JULY 31, 2012





MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED JULY 31, 2012

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Organization.....		2
Financial Section		
Independent Auditor's Report.....		4
Management's Discussion and Analysis		6
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets	Exhibit 1	12
Statement of Revenues, Expenses, and Changes in Net Assets.....	Exhibit 2	13
Statement of Cash Flows.....	Exhibit 3	14
Notes to the Financial Statements.....		15
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Funding Progress - Other Postemployment Benefits		24
SUPPLEMENTAL INFORMATION		
Statement of Net Assets by Location	Schedule 1	26
Statement of Revenues, Expenses, and Changes in Net Assets by Location	Schedule 2	28
Statement of Cash Flows by Location.....	Schedule 3	30
Schedule of Tournament Revenues and Direct Expenses	Schedule 4	32

Organization 2012

Term Expires

BOARD OF DIRECTORS

Mindy Sparby, President.....	2012
Mark Fredericksen, Vice President.....	2013
Luanne Wagner, Treasurer	2012
Perry Aadland	2012
Kim Algoo*	2012
Rick Bleichner.....	2013
Steve Eklund*.....	2015
Laurie Esau*	2014
John Hamann.....	2014
Walter Hautala.....	2013
Mike Kolness.....	2014
Chris Laird.....	2012
Jill Lofald.....	2012
Mike Manning.....	2014
Scott McCready	2015
Roz Peterson.....	2015
Lane Powell.....	2015
Mike Rusinko*	2013
Mark Solberg.....	2015
John Soma	2015

Executive Staff

David Stead, Executive Director	Indefinite
Lisa Lissimore, Associate Director.....	Indefinite
Kevin Merkle, Associate Director.....	Indefinite
Craig Perry, Associate Director.....	Indefinite
Jody Redman, Associate Director	Indefinite

* Appointed by the Governor

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minnesota State High School League

We have audited the accompanying basic financial statements of the Minnesota State High School League as of and for the year ended July 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Minnesota State High School League's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Regions 2A, 3A, 6A, 7A, 8A, 2AA, 7AA, and 8AA, which represent approximately 13 percent, 11 percent, and 20 percent, respectively, of the assets, net assets, and revenues of the Minnesota State High School League. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those listed Regions of the Minnesota State High School League, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota State High School League as of July 31, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

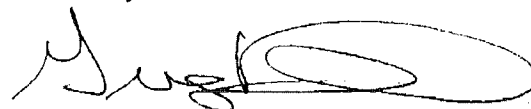
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

We also issue a separate management letter report dated December 6, 2012, which includes a Schedule of Findings and Recommendations and our Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance. That report does not include the Regions listed in the first paragraph of this letter; those Regions were audited by other auditors.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 6, 2012

Minnesota State High School League
Management's Discussion and Analysis
July 31, 2012

(Unaudited)

Introduction

The discussion and analysis of the Minnesota State High School League's (MSHSL) financial statements provides an overview of the financial position and activities of the League for the year ended July 31, 2012. The discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes.

Financial Statements

The MSHSL's Management's Discussion and Analysis (MD&A) report serves as an introduction to the basic financial statements. The basic financial statements consist of two parts: the financial statements and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The MSHSL presents three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements provide information about activities of the MSHSL as a whole and present a longer-term view of the League's finances.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the League at the end of the fiscal year, under a classified balance sheet format that reflects current and noncurrent assets and liabilities, and reports net assets under the following classifications:

Invested in capital assets. This category includes property and equipment, net of accumulated depreciation.

Unrestricted. Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital purposes. These assets are available for any purpose of the League and include resources that may be reserved for specific purposes as determined by management, financial, or Board of Directors policies.

The League's assets, liabilities, and net assets at July 31, 2012 and 2011, are summarized below.

	2012	2011	Percentage Change
Current assets	\$ 5,065,730	\$ 4,558,269	11.1%
Noncurrent assets	493,745	470,240	5.0%
Capital assets	981,644	1,028,435	(4.5%)
Total Assets	<u>\$ 6,541,119</u>	<u>\$ 6,056,944</u>	8.0%
Current liabilities	\$ 1,635,753	\$ 1,376,553	18.8%
Noncurrent liabilities	521,970	460,297	13.4%
Total liabilities	<u>\$ 2,157,723</u>	<u>\$ 1,836,850</u>	17.5%
Invested in capital assets	\$ 981,644	\$ 1,028,435	(4.5%)
Unrestricted	3,401,752	3,191,659	6.6%
Total net assets	<u>\$ 4,383,396</u>	<u>\$ 4,220,094</u>	3.9%

Current assets at July 31, 2012, totaled \$5,065,730, an increase of 11.1% or \$507,461. Current assets consist primarily of cash and cash equivalents, investments in negotiable and nonnegotiable certificates of deposit, equity securities and accounts receivable. Accounts receivable consists primarily of television fees owed to the League for tournaments held in 2012.

Capital assets, net of accumulated depreciation, totaled \$981,644. Capital assets purchased in 2012 totaled \$4,734 and consisted of office building improvements. A \$46,791 reduction in capital assets is due to the difference in depreciation recorded in 2012 and capital assets purchased in 2012. The noncurrent assets consist of deferred compensation under section 457(b) of the Internal Revenue Code for the executive staff and investments held for retirement benefits payable to employees who have met certain eligibility criteria for payment of sick leave balances.

Current liabilities totaled \$1,635,753 at July 31, 2012, an 18.8% increase or \$259,200. Current liabilities consist primarily of school expense reimbursement payable. The school expense reimbursement liability increased \$225,326. There is no retirement benefits payable in current liabilities in 2012. Noncurrent liabilities totaled \$521,970 at July 31, 2012, an increase of 13.4% or \$61,673. Noncurrent liabilities consist of retirement benefits payable and deferred compensation.

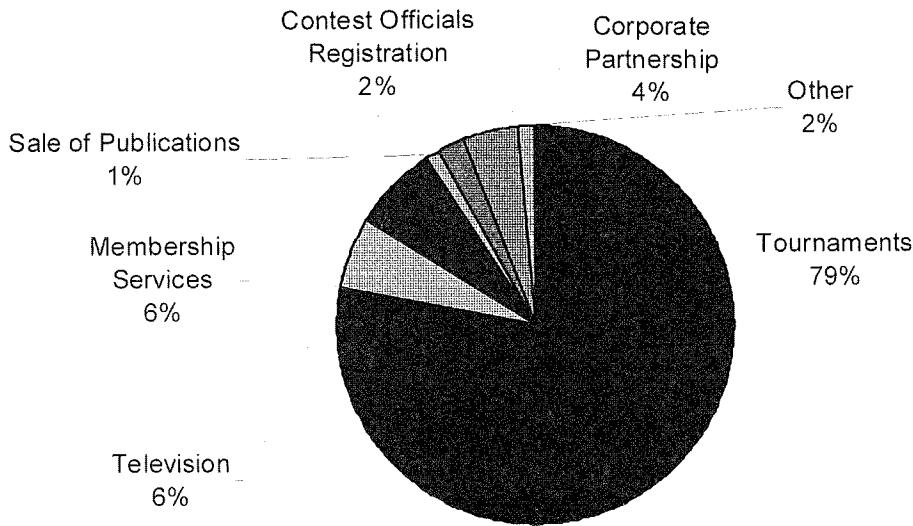
Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the League's operating and nonoperating financial activity during the year. This statement displays the net income or loss from operations. Operating revenues are those generated by the League's principal ongoing operations such as tournaments, membership fees, official's registrations, and sale of publications. Corporate partnerships are considered nonoperating revenue because the League does not give equal value in exchange for the resources received.

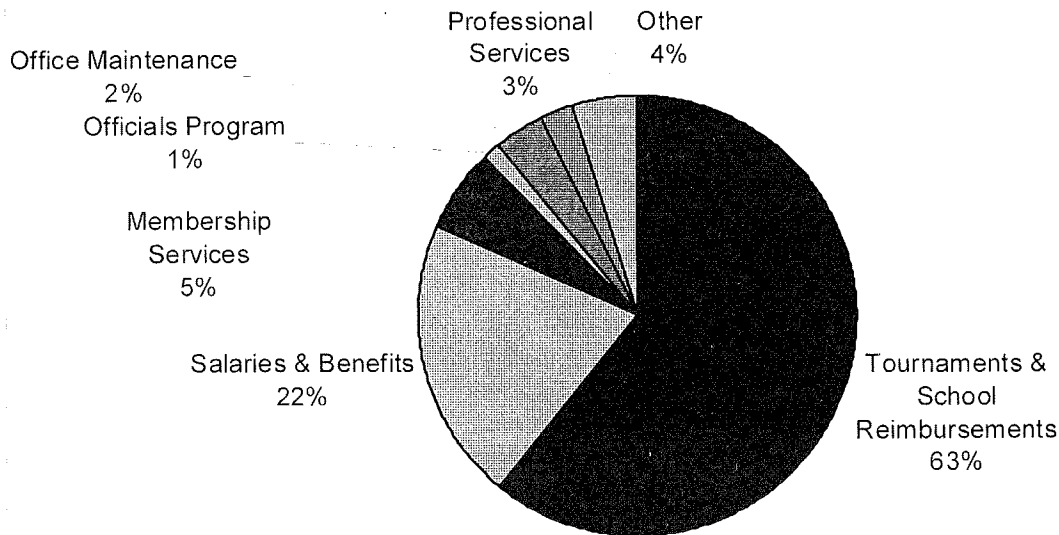
The League's revenues, expenses and changes in net assets for the years ended July 31, 2012 and 2011, are summarized below.

	2012	2011	Percentage Change
Operating revenues			
Tournaments	\$ 12,273,858	\$ 10,879,000	12.8%
Television	849,945	815,820	4.2%
Membership services	952,750	951,790	0.1%
Contest officials registration	344,003	313,532	9.7%
Sale of publications	207,105	151,552	36.7%
Other	187,971	168,851	11.3%
Total operating revenues	<u>\$ 14,815,632</u>	<u>\$ 13,280,545</u>	11.6%
Operating expenses			
Tournaments and school reimbursements	\$ 9,621,454	\$ 8,232,017	16.9%
Membership services	704,946	665,085	6.0%
Officials program	228,259	167,124	36.6%
Salaries and benefits	3,449,858	3,362,274	2.6%
Professional services	403,597	370,066	9.1%
Office maintenance	379,772	387,308	(1.9%)
Other	605,438	591,777	2.3%
Total operating expenses	<u>\$ 15,393,324</u>	<u>\$ 13,775,651</u>	11.7%
Operating income (loss)	<u>\$ (577,692)</u>	<u>\$ (495,106)</u>	16.7%
Non-operating revenues (expenses)			
Corporate partnership	\$ 663,670	\$ 639,680	3.8%
Interest	77,324	11,017	601.9%
Total non-operating revenues (expenses)	<u>\$ 740,994</u>	<u>\$ 650,697</u>	13.9%
Change in net assets	\$ 163,302	\$ 155,591	5.0%
Net assets, August 1	<u>4,220,094</u>	<u>4,064,503</u>	3.8%
Net assets, July 31	<u>\$ 4,383,396</u>	<u>\$ 4,220,094</u>	3.9%

Total MSHSL Revenues



Total MSHSL Expenses



For the year ended July 31, 2012, tournament revenue totaled \$12,273,858, an increase of \$1,394,858 or 12.8%. The major portion of this tournament revenue was the sale of tickets for admission to the events. More people attended the tournaments in 2012 than in 2011. Other tournament revenue consists of program sales, t-shirt and souvenir sales, advertising and sponsorships.

Television revenues increased in 2012 and are expected to increase by approximately 3% for the next 10 years. The League's Board of Directors signed a 10-year, \$9.7 million contract with a local television station in 2005. In 2009, the League signed an agreement with the television station extending the contract to 2021.

Membership services revenue consist of a membership fee and an activity registration fee for each activity the school sponsors at the high school level. For the year ended July 31, 2012, membership service revenue increased by \$960.

Contest officials register annually with the League and attend rules meetings and must pass a test to officiate League sponsored games. These registrations increased by 9.7% in fiscal year 2012. The League increased each registration from \$42 to \$47 to offset an increase in expenses related to training registered officials in League sponsored activities.

Publications are sold to member schools, officials, and the general public. Publications include the League membership directory, Official Handbook and sports rules books. The sale of these publications increased by 36.7% in fiscal year 2012. This sharp increase in revenues was anticipated due to the League implementing an every other year rulebook requirement for schools and officials.

Operating expenses consist of tournament expenses, school reimbursements as well as general and administrative expenses. Tournament and school reimbursements increased by 16.9% in fiscal year 2012. Membership services increased 6.0%. The official's program expenses increased by 36.6% due to more rulebook purchases, the NFHS 100% state program and an increase in training for officials. For fiscal year ended July 31, 2012, total operating expenses increased by 11.7%.

Statement of Cash Flows

The Statement of Cash Flows presents information about changes in the League's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities, noncapital and related financing, capital and related financing, and investing activities.

The League's cash flows for the years ended July 31, 2012 and 2011, are summarized below.

	2012	2011	Percentage Change
Cash provided by (used in)			
Operating activities	\$ (240,610)	\$ (391,070)	(38.5%)
Non-capital and related financing activities	663,670	639,680	3.8%
Capital and related financing activities	(4,734)	(7,795)	(39.3%)
Investing activities	(956,576)	440,883	(317.0%)
Net increase (decrease) in cash	\$ (538,250)	\$ 681,698	(179.0%)
Cash and cash equivalents-August 1	2,940,057	2,258,359	30.2%
Cash and cash equivalents-July 31	\$ 2,401,807	\$ 2,940,057	(18.3%)

Capital Assets

Investment in capital assets includes land, buildings and building improvements, furniture and equipment, and computer equipment. Total depreciation expense for the year was \$51,525. Capital additions consisted of office building improvements totaling \$4,734.

Economic Factors That Will Affect the Future

Looking toward the future, management believes that the League is well positioned to continue its strong financial position and level of excellence in service to the students, administrators, schools, and citizens of the state of Minnesota. The League's revenues are largely dependent on the weather and school match-ups at the various state tournaments. Corporate sponsorships and the television rights fee help to alleviate the up and down swings in tournament revenues.

Contacting the League's Financial Management

This financial report is designed to provide our member schools, administrators, board members, and the citizens of Minnesota a general overview of the League's finances and to demonstrate the League's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Richard Matter, Assistant Director, or David Stead, Executive Director, at (763) 560-2262.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
 JULY 31, 2012

Assets

	2012
Current Assets	
Cash and cash equivalents (Note 2)	\$ 2,401,807
Investments (Note 2)	2,521,415
Accounts receivable	95,014
Accrued interest receivable	946
Prepaid items	<u>46,548</u>
Total current assets	<u>\$ 5,065,730</u>
Noncurrent Assets	
Restricted assets	
Deferred compensation (Note 10)	<u>\$ 135,828</u>
Capital assets	
Non-depreciable	\$ 318,564
Depreciable-net of accumulated depreciation	<u>663,080</u>
Net capital assets (Note 3)	<u>\$ 981,644</u>
Other assets	
Investments held for retirement benefits (Note 7)	<u>\$ 357,917</u>
Total noncurrent assets	<u>\$ 1,475,389</u>
Total Assets	<u>\$ 6,541,119</u>

Liabilities and Net Assets

Current Liabilities	
Salaries payable	\$ 73,344
Accounts payable	60,787
School expense reimbursement payable	1,330,684
Accrued employee benefits payable (Note 6)	152,790
Deferred income (Note 5)	<u>18,148</u>
Total current liabilities	<u>\$ 1,635,753</u>
Noncurrent Liabilities	
Retirement benefits payable (Note 7)	\$ 344,142
Net other post-employment benefits payable (Note 13)	42,000
Deferred compensation (Note 10)	<u>135,828</u>
Total noncurrent liabilities	<u>\$ 521,970</u>
Total Liabilities	<u>\$ 2,157,723</u>
Net Assets (Note 8)	
Invested in capital assets	\$ 981,644
Unrestricted	<u>3,401,752</u>
Total Net Assets	<u>\$ 4,383,396</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JULY 31, 2012

	2012
Operating Revenues	
Tournaments	\$ 12,273,858
Television	849,945
Membership services	952,750
Contest officials registration	344,003
Sales of handbooks, rule books, and supplies	207,105
Other	<u>187,971</u>
Total Operating Revenues	\$ <u>14,815,632</u>
Operating Expenses	
Tournaments	\$ 8,095,741
School expense reimbursement	1,525,713
Membership services	
Insurance	496,693
Handbooks, rule books, and supplies	151,550
Other	56,703
Fine arts programs	12,697
Officials program	228,259
Committees	114,781
Board of directors	75,683
Salaries	2,413,967
Employee benefits	1,035,891
Insurance	14,841
Legal	121,490
Other professional services	282,107
Maintenance	43,176
Utilities	46,819
Postage	61,503
Supplies	100,766
Data processing and office equipment	61,142
Public relations	73,063
Corporate sponsor commission	52,500
Television consulting	14,867
Depreciation	51,525
Other	<u>261,847</u>
Total Operating Expenses	\$ <u>15,393,324</u>
Operating Income (Loss)	\$ <u>(577,692)</u>
Nonoperating Revenues (Expenses)	
Corporate partnership	\$ 663,670
Interest	<u>77,324</u>
Total Nonoperating Revenues (Expenses)	\$ <u>740,994</u>
Change in Net Assets	\$ 163,302
Total Net Assets - August 1	<u>4,220,094</u>
Total Net Assets - July 31	<u><u>\$ 4,383,396</u></u>

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

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2012

	2012
Cash Flows from Operating Activities	
Cash received from customers	\$ 12,589,764
Cash received from schools	952,750
Payments to suppliers for goods and services	(9,174,787)
Payments to employees for services	(2,396,661)
Payments for fringe benefits	(976,982)
Payments to schools	<u>(1,234,694)</u>
Net Cash Provided by (Used In) Operating Activities	\$ <u>(240,610)</u>
Cash Flows from Non-Capital and Related Financing Activities	
Corporate partnership	\$ 663,670
Operating transfers in	828,521
Operating transfers out	<u>(828,521)</u>
Net Cash Provided by (Used In) Non-Capital and Related Financing Activities	\$ <u>663,670</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ <u>(4,734)</u>
Cash Flows from Investing Activities	
Interest on investments	\$ 77,452
Proceeds from sales and maturities of investments	4,027,277
Purchases of investments	<u>(5,061,305)</u>
Net Cash Provided by (Used In) Investing Activities	\$ <u>(956,576)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (538,250)
Cash and Cash Equivalents - August 1	<u>2,940,057</u>
Cash and Cash Equivalents - July 31	\$ <u><u>2,401,807</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities	
Operating Income (Loss)	\$ <u>(577,692)</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities	
Depreciation	51,525
(Increase) Decrease in accounts receivable	(10,527)
(Increase) Decrease in prepaid expenses	(1,897)
Increase (Decrease) in salaries payable	17,378
Increase (Decrease) in accounts payable	(4,086)
Increase (Decrease) in school expense reimbursement payable	225,326
Increase (Decrease) in short-term accrued employee benefits payable	20,056
Increase (Decrease) in deferred income	526
Increase (Decrease) net other post-employment benefits payable	31,011
Increase (Decrease) in retirement benefits payable	<u>7,770</u>
Total adjustments	\$ <u>337,082</u>
Net Cash Provided By (Used In) Operating Activities	\$ <u><u>(240,610)</u></u>

Non-cash Operating Activities

The MSHSL has \$1,260,705 of non-monetary exchange revenues and expenses

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

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2012**

1. Summary of Significant Accounting Policies

The Minnesota State High School League's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended July 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the League has the option to apply FASB pronouncements issued after that date, the League has chosen not to do so. The more significant accounting policies established in GAAP and used by the League are discussed below.

Nature of Operations - The Minnesota State High School League (MSHSL) is a nonprofit corporation whose Articles of Incorporation and Constitution were filed with the Secretary of State on May 27, 1960. The MSHSL is a voluntary association of high schools whose governing boards have delegated their control of extracurricular activities to the MSHSL. These activities include statewide athletic programs for both able-bodied athletes and athletes with disabilities, music, drama, speech, and debate.

Reporting Entity - The Board of Directors is responsible for the management of the affairs of the MSHSL. The League's Constitution directs the Board of Directors to divide the state into regions and to have control of all region and section contests. Each Administrative Region Committee is charged with the immediate management of the activities assigned by the Board. The Administrative Region Committees must adhere to the League's Constitution, Articles of Incorporation, and policies developed by the Board of Directors. They do not have the authority to determine or interpret eligibility bylaws, nor may they penalize a school for bylaw infractions. Because the Administrative Regions are not legally separate entities, the July 31, 2012, financial statements of the MSHSL include the financial information of all 16 Administrative Regions.

Measurement Focus and Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned. Expenses are recognized when they are incurred. When both restricted and unrestricted resources are available for use, it is the League's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and Cash Equivalents - For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased, excluding investments held for retirement benefits, are considered to be cash equivalents.

Investments - Investments are stated at fair value. Certain investments have been designated by the Board of Directors for the payment of retirement benefits.

Restricted Assets - The League established a deferred compensation plan under Section 457(b) of the Internal Revenue Code for some of the executive staff. The assets in the plan are held by the MSHSL, subject to the claims of its general creditors, until the employee becomes eligible for withdrawals as provided in the plan agreement.

Capital Assets - Property and equipment are stated at cost. Replacements or improvements are capitalized. The capitalization threshold is \$3,000. Maintenance and repairs which do not improve or extend the lives of the assets are expensed as incurred. Depreciation is recorded using the straight line method over the assets' estimated useful lives:

Land improvements	40 years
Buildings and building improvements	40 years
Furniture and equipment	5-10 years
Computer equipment	3 years

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

Revenues – Operating revenues, such as tournament revenue, result from exchange transactions associated with the principal activity of the League. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or incidental activities. Corporate partnerships are considered nonoperating revenue because the League does not give equal value in exchange for the resources received.

School Expense Reimbursement - A liability is set up to report the proportionate return of excess nonappropriated funds to member schools based on their participation in MSHSL-sponsored tournaments.

Sick Pay Policy - The MSHSL employees are entitled to 15 days of paid sick leave per year. Employees are not compensated for unused sick leave upon termination of employment; however, qualified employees that meet the requirements of the sick leave pay plan may be compensated for unused balances to a maximum of one year salary.

Tax-Exempt Status - The MSHSL is a nonprofit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and applicable state statutes.

2. Deposits and Investments

A. The MSHSL is governed by the deposit and investment limitations of its own internal policies. The deposits and investments held on July 31, 2012, reported at fair value, are shown below.

	Maturities	Fair Value
Deposits:		
Checking and savings	-	\$ 2,509,520
Investments:		
Negotiable certificates of deposit		
Wells Fargo	Various	\$ 1,450,467
Wells Fargo	Various	250,000
Equities	Various	1,070,948
Total Investments		\$ 2,771,415
Total Deposits and Investments		\$ 5,280,935
Add:		
Petty Cash	-	204
Deferred compensation	-	135,828
Total Cash, Cash Equivalents, and Investments		\$ 5,416,967

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

2. Deposits and Investments (Continued)

Reconciliation to the Statement of
Net Assets:

Cash and cash equivalents	\$ 2,401,807
Investments	2,521,415
Deferred compensation	135,828
Investments held for retirement benefits	357,917
Total Cash, Cash Equivalents, and Investments	\$ 5,416,967

Custodial Credit Risk – As of July 31, 2012, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had a carrying value of \$2,509,520. Bank balances were \$2,751,640, of which \$727,802 was not covered by federal depository insurance.

Except as noted below, all investments, evidenced by individual securities, are registered in the name of the MSHSL or one of its administrative regions. As of July 31, 2012, negotiable certificates of deposit in the amount of \$1,700,467 were unregistered and held by the MSHSL or its agent, but not in the MSHSL's name.

Investment Interest Rate Risk – The MSHSL has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The MSHSL has a formal investment policy that limits its investment choices.

Concentration of Investment Credit Risk – The MSHSL investment policy limits the amount it may invest in any one issuer. At July 31, 2012, the MSHSL had no concentration of credit risk.

3. Capital Assets

Capital assets comprise the following at July 31, 2012:

	07/31/2011	Additions	Deductions/ Adjustments	07/31/2012
Capital asset, not being depreciated:				
Land and land improvements	\$ 318,564	\$ -	\$ -	\$ 318,564
Capital assets, being depreciated:				
Building and building improvements	\$ 1,508,219	\$ 4,734	\$ -	\$ 1,512,953
Furniture and equipment	200,992	-	-	200,992
Computer equipment	4,454	-	-	4,454
Total capital assets being depreciated	\$ 1,713,665	\$ 4,734	\$ -	\$ 1,718,399
Less: accumulated depreciation				
Building and building improvements	\$ (829,461)	\$ (37,714)	\$ -	\$ (867,175)
Furniture and equipment	(169,879)	(13,811)	-	(183,690)
Computer equipment	(4,454)	-	-	(4,454)
Total accumulated depreciation	\$ (1,003,794)	\$ (51,525)	\$ -	\$ (1,055,319)
Total capital assets being depreciated, net	\$ 709,871	\$ (46,791)	\$ -	\$ 663,080
Net Capital Assets	\$ 1,028,435	\$ (46,791)	\$ -	\$ 981,644

Depreciation expense totaling \$51,525 was charged for the year ended July 31, 2012.

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

4. Operating Leases

The MSHSL is obligated under operating leases for mailing equipment and photocopying equipment. Expenses associated with these leases were \$16,235 for the year ended July 31, 2012. Future minimum lease payments at July 31, 2012, are as follows:

2013	16,417
2014	16,030
2015	11,264
2016	11,264
2017	3,734
Total	<u>\$ 58,709</u>

5. Deferred Income

Deferred income consists of amounts received for membership services and official handbooks, yearbooks, and rules books, which are not yet ready for distribution. This income is recognized in subsequent years.

6. Accrued Employee Benefits Payable

MSHSL employees that meet certain eligibility criteria earn vacation benefits based on years of service. Employees earn between two weeks and five weeks of vacation annually. Unused vacation time cannot exceed 1.5 times the employee's current rate of accrual. Employees are paid 100% of their accumulated vacation pay when they terminate their employment.

Accrued employee benefits payable at July 31, 2012:

Current Liabilities	
Vacation leave	<u>\$ 152,790</u>

7. Retirement Benefits Payable

The MSHSL has a retirement plan that provides certain unused sick leave compensation benefits for eligible employees.

Following 15 years of service to the MSHSL and after the employee reaches age 55; the employee may receive a payment for unused sick leave at the time of separation from the MSHSL. Said payment shall be calculated by multiplying the number of unused sick leave days times the daily rate of pay at separation. The maximum unused sick leave payment shall not exceed one year's salary.

Retirement benefits payable at July 31, 2012, is \$344,142. Costs associated with employees who have earned benefits but whose benefits have not vested because they have not yet met the requirements of the plan have not been accrued because the ultimate cost to the MSHSL cannot be reasonably estimated. The MSHSL has designated certain investments to be used for payment of future retirement benefits. These amounts exceeded the accrued liability by \$13,775 for the year ended July 31, 2012.

Retirement benefits activity for the year ended July 31, 2012:

	07/31/2011	Additions	Deductions	07/31/2012	Due Within One Year
Retirement benefits payable	<u>\$ 336,372</u>	<u>\$ 7,770</u>	<u>\$ -</u>	<u>\$ 344,142</u>	<u>\$ -</u>

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

8. Equity Classifications

Equity is classified as net assets and displayed in two components:

- A. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.
- B. Unrestricted – All other net assets that do not meet the definition of “invested in capital assets”.

9. MSHSL 403(b) Plan

The MSHSL participates with eligible employees, who so elect, in a 403(b) plan. Employees must contribute at least six percent of their gross wages to receive the MSHSL’s contribution.

The MSHSL contributed 13 percent of the participating employees’ wages. The only obligation of the MSHSL is to make contributions for the term of the participating employees’ employment. In accordance with the plan terms, each employee’s share of the MSHSL’s contribution is fully vested with the employee. The MSHSL’s contributions were \$295,918 for the year ended July 31, 2012.

10. Deferred Compensation

The MSHSL established in the year ending July 31, 2008, a deferred compensation plan under Section 457(b) of the Internal Revenue Code for two members of the executive staff. Under the provisions of the plan, the MSHSL contributes four percent or seven percent of the executive staff’s salary to the plan. Based on the executive director’s contract an additional contribution may be made on an annual basis.

The assets in the plan are held by the MSHSL, subject to the claims of its general creditors, until the employee becomes eligible for withdrawals as provided in the plan agreement. The assets (held in investment options in accordance with the employee’s selection) and the related liability are shown on the MSHSL’s balance sheet at July 31, 2012.

11. Risk Management

The MSHSL is exposed to various risks of loss related to: torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; natural disasters; and catastrophic injury. To cover its liabilities, the MSHSL purchases commercial insurance. There were no significant reductions in insurance coverage from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

12. Long Term Contracts

The MSHSL has signed contracts with a television station and certain corporate sponsors. These contracts last from 3 to 11 years. The revenue from these contracts is recognized when earned. In addition, the League exchanges advertising for other non-monetary assets or services such as tournament equipment, and radio, television or print advertising. The value of the services exchanged is recorded in tournament revenue and expense accounts.

13. Other Post-Employment Benefits

In 2009, the MSHSL implemented the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This pronouncement required the MSHSL to calculate and record a net other post-employment benefits (OPEB) payable at July 31, 2012. The net OPEB payable is, in general, the cumulative difference between the actuarial required contribution and the actual contribution since August 1, 2008.

Plan Description

Following retirement, if the employee has reached the age of 58 or 60 depending on the employee’s classification and has been employed by the MSHSL for 20 years, payment of medical, hospitalization, dental, and term life insurance

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

13. Other Post-Employment Benefits (Continued)

premiums for the employee will be made by the MSHSL as if the individual were still on staff until the conclusion of the fiscal year the employee reaches age 65, subject to the approval of the insurance carriers.

Participants

Participants of the plan consisted of the following at August 1, 2011, the date of the first actuarial valuation:

Active employees	24
Retired employees	2
Dependents of retirees	0
 Total plan participants	 26

Funding Policy

The contribution requirements of the plan members and the MSHSL are established and may be amended by the MSHSL Board of Directors. The MSHSL finances the plan on a "pay-as-you-go" basis. During 2012, the MSHSL expended \$27,470 for these benefits.

For those qualified retirees that meet the criteria for a full medical, dental, and life insurance benefit, the MSHSL contributes 100% of the benefit cost.

Annual OPEB Cost and Net OPEB Obligation

The MSHSL's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the MSHSL's OPEB cost for 2012, the amount actuarially contributed to the plan, and changes in the MSHSL's net OPEB obligation.

Annual required contribution (ARC)	\$	58,648
Interest on net OPEB obligation		495
Adjustment to ARC		(662)
Annual OPEB cost		58,481
Contributions during the year		(27,470)
Increase (Decrease) in net OPEB obligation		31,011
Net OPEB – Beginning of the year		10,989
Net OPEB – End of the year	\$	42,000

The MSHSL's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB payable for fiscal year 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contribution	Net OPEB Obligation
July 31, 2010	\$ 48,891	\$ 43,071	88.1%	\$ 4,223
July 31, 2011	48,830	42,064	86.1%	10,989
July 31, 2012	58,481	27,470	47.0%	42,000

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

13. Other Post-Employment Benefits (Continued)

Funding Status

The MSHSL currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of plan assets is zero.

Actuarial accrued liability (AAL)	\$523,059
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$523,059
 Funded ratio (actuarial value of plan assets/AAL)	 0.00%
Covered Payroll (active plan members)	\$1,819,443
UAAL as a percentage of covered payroll	28.7%

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the August 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return and an annual health care cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. The actuarial value of plan assets was set equal to the market value of assets. The unfunded actuarial accrued liability is being amortized over 30 years on a closed group basis.

REQUIRED SUPPLEMENTARY INFORMATION

**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
JULY 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 1, 2008	\$ -	\$ 417,915	\$ 417,915	0.0%	\$1,589,332	26.3%
August 1, 2011	\$ -	\$ 523,059	\$ 523,059	0.0%	\$1,819,443	28.7%

Beginning in 2009, the MSHSL implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Currently, only two year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirements as the information becomes available.

SUPPLEMENTAL INFORMATION

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

SCHEDULE 1

STATEMENT OF NET ASSETS BY LOCATION
JULY 31, 2012

	MSHSL OFFICE	ADMINISTRATIVE REGIONS																TOTAL ADMINISTRATIVE REGIONS	COMBINED TOTAL
		1A	2A	3A	4A	5A	6A	7A	8A	1AA	2AA	3AA	4AA	5AA	6AA	7AA	8AA		
Assets																			
Current Assets																			
Cash and cash equivalents (Note 2)	\$ 831,352	78,958	147,755	130,219	6,991	116,383	66,789	132,438	95,901	55,116	80,652	121,491	88,810	172,519	90,830	105,277	80,326	\$ 1,570,455	\$ 2,401,807
Investments (Note 2)	2,521,415	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,521,415
Accounts receivable	88,914	-	-	-	-	-	-	-	-	-	279	-	-	5,821	-	-	-	6,100	95,014
Accrued interest receivable	883	-	-	-	-	63	-	-	-	-	-	-	-	-	-	-	-	63	946
Prepaid items	46,548	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,548
Total current assets	\$ 3,489,112	78,958	147,755	130,219	6,991	116,446	66,789	132,438	95,901	55,116	80,931	121,491	88,810	178,340	90,830	105,277	80,326	\$ 1,576,618	\$ 5,065,730
Noncurrent Assets																			
Restricted assets																			
Deferred compensation (Note 10)	\$ 135,828	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 135,828
Capital assets																			
Non-depreciable	\$ 318,564	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 318,564
Depreciable-net of accumulated depreciation	663,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	663,080
Net capital assets (Note 3)	\$ 981,644	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 981,644
Other assets																			
Investments held for retirement benefits (Note 7)	\$ 357,917	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 357,917
Total noncurrent assets	\$ 1,475,389	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 1,475,389
Total Assets	\$ 4,964,501	78,958	147,755	130,219	6,991	116,446	66,789	132,438	95,901	55,116	80,931	121,491	88,810	178,340	90,830	105,277	80,326	\$ 1,576,618	\$ 6,541,119
Liabilities and Net Assets																			
Current Liabilities																			
Salaries payable	\$ 72,764	-	-	-	-	-	-	-	-	-	580	-	-	-	-	-	-	580	\$ 73,344
Accounts payable	59,741	11	-	219	-	-	-	816	-	-	-	-	-	-	-	-	-	1,046	60,787
School expense reimbursement payable	677,925	-	117,700	55,096	-	40,912	-	63,999	32,000	-	35,188	51,338	36,619	112,142	36,907	50,288	20,570	652,759	1,330,684
Accrued employee benefits payable (Note 6)	152,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	152,790
Deferred income (Note 5)	18,148	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,148
Total current liabilities	\$ 981,368	11	117,700	55,315	-	40,912	-	64,815	32,000	-	35,768	51,338	36,619	112,142	36,907	50,288	20,570	\$ 654,385	\$ 1,635,753
Noncurrent Liabilities																			
Retirement benefits payable (Note 7)	\$ 344,142	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 344,142
Net other post-employment benefits payable	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,000
Deferred compensation (Note 10)	135,828	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	135,828
Total noncurrent liabilities	\$ 521,970	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 521,970
Total Liabilities	\$ 1,503,338	11	117,700	55,315	-	40,912	-	64,815	32,000	-	35,768	51,338	36,619	112,142	36,907	50,288	20,570	\$ 654,385	\$ 2,157,723
Net Assets (Note 8)																			
Invested in capital assets	\$ 981,644	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 981,644
Unrestricted	2,479,519	78,947	30,055	74,904	6,991	75,534	66,789	67,623	63,901	55,116	45,163	70,153	52,191	66,198	53,923	54,989	59,756	922,233	3,401,752
Total Net Assets	\$ 3,461,163	78,947	30,055	74,904	6,991	75,534	66,789	67,623	63,901	55,116	45,163	70,153	52,191	66,198	53,923	54,989	59,756	\$ 922,233	\$ 4,383,396

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

Schedule 4

SCHEDULE OF TOURNAMENT REVENUES AND DIRECT EXPENSES
FOR THE YEAR ENDED JULY 31, 2012

	MSHSL OFFICE			ADMINISTRATIVE REGIONS			COMBINED TOTAL		
	Revenues	Direct Expenses	Excess (Deficiency) of Revenues Over Direct Expenses	Revenues	Direct Expenses	Excess (Deficiency) of Revenues Over Direct Expenses	Revenues	Direct Expenses	Excess (Deficiency) of Revenues Over Direct Expenses
Tournament									
Baseball	\$ 73,314	\$ 78,450	\$ (5,136)	\$ 285,335	\$ 238,201	\$ 47,134	\$ 358,649	\$ 316,651	\$ 41,998
Boys' basketball	512,585	247,049	265,536	1,030,222	357,781	672,441	1,542,807	604,830	937,977
Girls' basketball	316,980	224,143	92,837	647,221	323,712	323,509	964,201	547,855	416,346
Cross country running	14,157	31,685	(17,528)	22,414	44,879	(22,465)	36,571	76,564	(39,993)
Football	880,793	332,731	548,062	1,198,998	491,447	707,551	2,079,791	824,178	1,255,613
Golf	12,257	49,154	(36,897)	17,640	106,789	(89,149)	29,897	155,943	(126,046)
Girls' gymnastics	55,171	67,459	(12,288)	25,166	47,455	(22,289)	80,337	114,914	(34,577)
Boys' hockey	1,567,477	353,688	1,213,789	585,469	242,945	342,524	2,152,946	596,633	1,556,313
Nordic ski racing	4,218	23,839	(19,621)	1,756	24,725	(22,969)	5,974	48,564	(42,590)
Alpine skiing	3,979	24,979	(21,000)	-	36,420	(36,420)	3,979	61,399	(57,420)
Soccer	160,916	113,111	47,805	277,178	180,699	96,479	438,094	293,810	144,284
Girls' softball	64,243	48,546	15,697	149,624	169,165	(19,541)	213,867	217,711	(3,844)
Boys' swimming	49,332	49,597	(265)	50,947	43,669	7,278	100,279	93,266	7,013
Girls' swimming	49,444	52,368	(2,924)	67,472	57,183	10,289	116,916	109,551	7,365
Boys' tennis	5,516	34,508	(28,992)	5,207	40,236	(35,029)	10,723	74,744	(64,021)
Girls' tennis	6,212	37,609	(31,397)	8,634	58,704	(50,070)	14,846	96,313	(81,467)
Track and field	131,464	130,692	772	164,094	203,422	(39,328)	295,558	334,114	(38,556)
Girls' volleyball	185,627	150,053	35,574	503,827	265,249	238,578	689,454	415,302	274,152
Wrestling	497,241	222,957	274,284	290,649	244,306	46,343	787,890	467,263	320,627
Synchronized swimming	-	482	(482)	-	-	-	-	482	(482)
Adapted soccer	6,073	18,099	(12,026)	-	-	-	6,073	18,099	(12,026)
Adapted floor hockey	9,343	20,059	(10,716)	-	-	-	9,343	20,059	(10,716)
Adapted softball	5,914	18,763	(12,849)	-	-	-	5,914	18,763	(12,849)
Adapted bowling	1,868	14,304	(12,436)	-	-	-	1,868	14,304	(12,436)
Debate	6	18,156	(18,150)	-	12,828	(12,828)	6	30,984	(30,978)
Speech	7,771	48,820	(41,049)	46,730	200,868	(154,138)	54,501	249,688	(195,187)
One-act play	16,457	21,494	(5,037)	32,908	70,505	(37,597)	49,365	91,999	(42,634)
Girls hockey	268,969	212,090	56,879	137,266	103,550	33,716	406,235	315,640	90,595
Music	-	-	-	143,277	310,091	(166,814)	143,277	310,091	(166,814)
Cheerleading	-	1,241	(1,241)	-	-	-	-	1,241	(1,241)
Girls' dance team	195,146	94,789	100,357	78,816	56,270	22,546	273,962	151,059	122,903
Lacrosse	26,809	24,605	2,204	87,888	68,507	19,381	114,697	93,112	21,585
Badminton	-	-	-	-	-	-	-	-	-
Visual arts	-	4	(4)	17,042	35,431	(18,389)	17,042	35,435	(18,393)
Robotics	8,091	34,475	(26,384)	-	-	-	8,091	34,475	(26,384)
Advertising	1,260,705	1,260,705	-	-	-	-	1,260,705	1,260,705	-
Total	\$ 6,398,078	\$ 4,060,704	\$ 2,337,374	\$ 5,875,780	\$ 4,035,037	\$ 1,840,743	\$ 12,273,858	\$ 8,095,741	\$ 4,178,117