

**INDEPENDENT AUDITOR'S REPORT**  
**INDEPENDENT SCHOOL DISTRICT NO. 403**  
**IVANHOE, MINNESOTA 56142**  
**FOR THE YEAR ENDING JUNE 30, 2008**

**Meulebroeck, Taubert & Co., PLLP**  
**Certified Public Accountants**  
**P.O. Box 707**  
**Pipestone, Minnesota 56164**

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**BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL**  
**JUNE 30, 2008**

**BOARD OF EDUCATION**

Milan Sik	Chairperson
Gene Panka	Treasurer
Mary Dwire	Clerk
Norman Van Overbeke	Director
Steve Citterman	Director
Beth Otto	Director

**ADMINISTRATIVE PERSONNEL**

Dwayne Strand	Superintendent
Joan Ratzloff	High School Principal
Mary Swenson	Business Manager
Nancy Blanchette	Administrative Assistant

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Daryl J. Kanthak, CPA

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Amanda K. Baarson, CPA  
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Michael K. Dubbelde, PA

**INDEPENDENT AUDITOR'S REPORT**

To The Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2007, and in our report dated August 8, 2007, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota as of June 30, 2008, and the respective changes in financial position, and the respective budgetary comparison for General Fund and the Major Special Revenue Funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior-year comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2007, from which it was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2008, on our consideration of the District'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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Meulebroeck, Taubert Co., PLLP*  
Meulebroeck, Taubert Co., PLLP  
Certified Public Accountants

October 7, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2008**

This section of the Independent School District No. 403's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*.

**Financial Highlights**

Key financial highlights for the 2007-2008 fiscal year include the following:

- Net assets increased \$243,033, or 31.0% over June 30, 2007.
- General Fund fund balance increased \$190,304 from the prior year, due to several different factors, including increases in tax revenue and state aids and increases in normal operating costs.  
Food Service Fund fund balance decreased \$1,300 from the prior year, due to a decrease in revenues of \$3,289 and a decrease in expenditures of \$2,083.  
Community Service Fund fund balance increased \$2,178, due mainly to an increase in tax revenue.  
Capital Projects Fund fund balance increased \$9,594,689, due to the issuance of bonds for the start of a building remodeling project.
- Total expenditures increased \$448,877 or 24.7% in comparison to fiscal year 2007, while revenues increased \$758,262 or 46.2% in comparison to fiscal year 2007.

**Overview of the Financial Statements**

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

**District-Wide Statements**

The District-wide statements (statement of net assets and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.



### Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds. The District maintains the following funds:

**Governmental Funds** - The District's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

**Fiduciary Funds** - The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

### Financial Analysis of the District as a Whole

Table 1 is a summarized view of the District's Statement of Net Assets.

<b>Table 1</b>		
<b>Statement of Net Assets</b>		
<b>As of June 30, 2008</b>		
<b><u>Assets</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Current and other assets	11,409,337	1,100,941
Capital assets, net of depreciation	467,527	322,072
<b>Total Assets</b>	<b><u>11,876,864</u></b>	<b><u>1,423,013</u></b>
<b><u>Liabilities</u></b>		
Current and other liabilities	676,806	449,002
Long-term liabilities	10,173,800	190,786
<b>Total Liabilities</b>	<b><u>10,850,606</u></b>	<b><u>639,788</u></b>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	358,110	322,072
Restricted	499,802	465,471
Unrestricted	168,346	(4,318)
<b>Net Assets</b>	<b><u>1,026,258</u></b>	<b><u>783,225</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>11,876,864</u></b>	<b><u>1,423,013</u></b>

The District's financial position is the product of numerous factors. Therefore, it is important to view the net assets balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

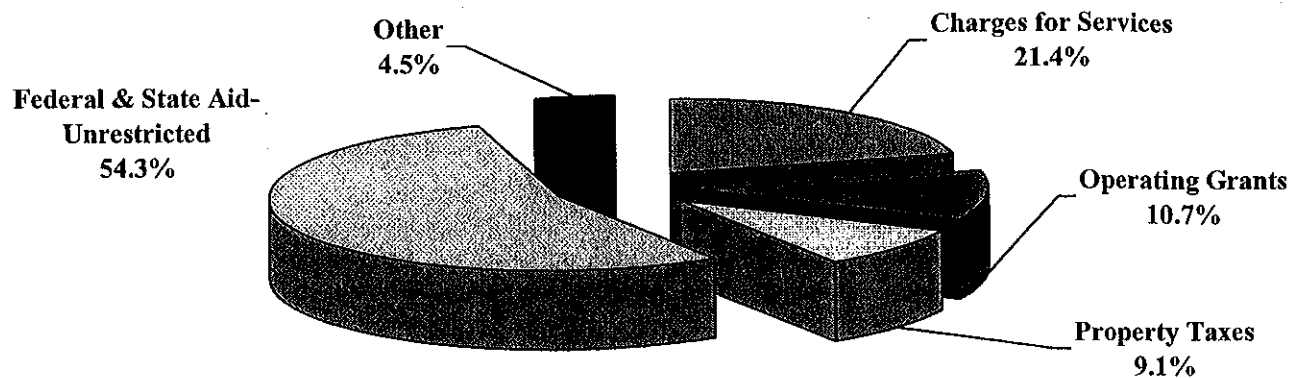
Table 2 presents a condensed version of the change in net assets of the District.

**Table 2**  
**Change in Net Assets**  
**For the year ended June 30, 2008**

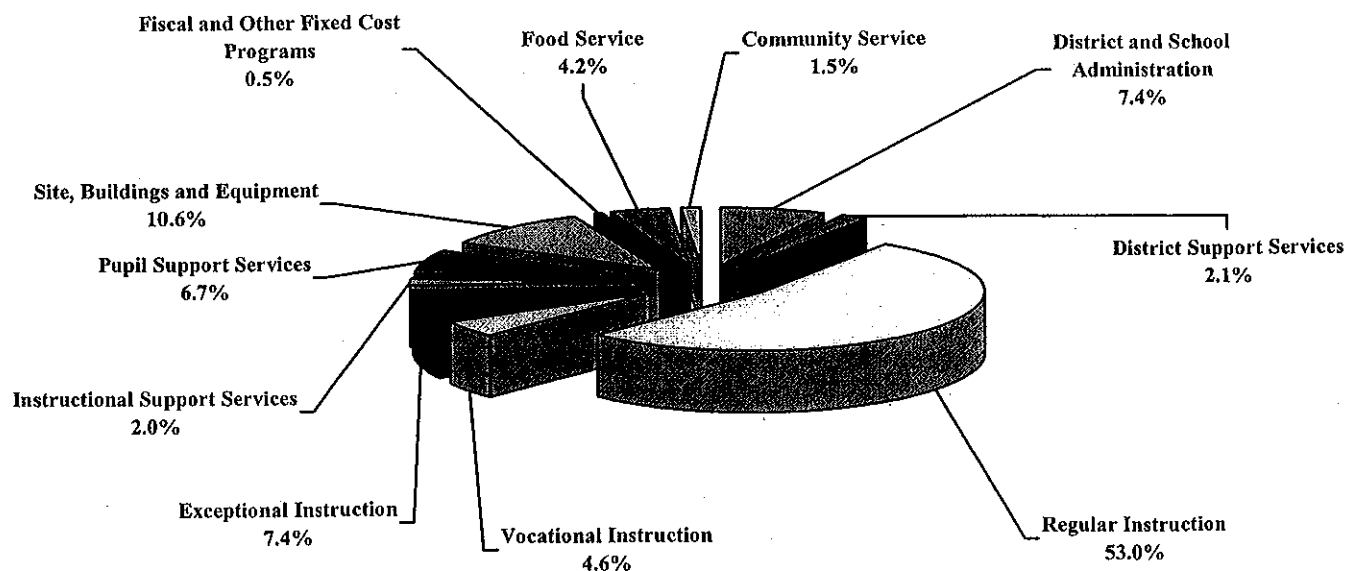
	<u>2008</u>	<u>2007</u>
<b><u>Revenues</u></b>		
Program Revenues		
Charges for Services	514,171	140,055
Operating Grants and Contributions	256,638	203,032
General Revenues		
Property Taxes	218,697	82,604
Unrestricted Federal and State Aid	1,302,423	1,141,012
Other	<u>107,831</u>	<u>73,512</u>
<b>Total revenues</b>	<b>2,399,760</b>	<b>1,640,215</b>
<b><u>Expenses</u></b>		
District and School Administration	158,916	173,332
District Support Services	46,087	43,283
Regular Instruction	1,145,203	774,785
Vocational Instruction	99,290	94,834
Exceptional Instruction	160,601	179,149
Instructional Support Services	42,233	41,261
Pupil Support Services	144,227	150,321
Site, Buildings, and Equipment	228,361	215,563
Fiscal and Other Fixed Cost Programs	10,189	12,755
Food Service	89,781	87,698
Community Service	<u>31,839</u>	<u>32,929</u>
<b>Total expenses</b>	<b><u>2,156,727</u></b>	<b><u>1,805,910</u></b>
<b>Change in net assets</b>	<b><u>243,033</u></b>	<b><u>(165,695)</u></b>

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

**Figure A - Sources of Revenues for Fiscal Year 2008**



**Figure B - Expenses for Fiscal Year 2008**



### **Financial Analysis of the District's Funds**

#### **Analysis of the General Fund**

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2008, the District revised the budget for various reasons. None of the revisions were considered significant.

For fiscal year 2008, revenues were over budget by \$65,551 and expenditures were under budget by \$179,576.

#### **Capital Assets**

Additions for the fiscal year of \$61,793 include a mower, gym lights, and a roofing project. Construction in progress shows initial costs of the District's remodeling project in the amount of \$109,417.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2008.

**Table 3**  
**Capital Assets**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	13,056	13,056	
Buildings and Improvements	1,169,038	1,118,856	50,182
Equipment	222,578	210,967	11,611
Pupil Transportation Vehicles	334,663	334,663	
Construction in Process	109,417		109,417
Less: Accumulated Depreciation	(1,390,919)	(1,365,164)	(25,755)
Total	<u>467,527</u>	<u>332,072</u>	<u>145,455</u>
Depreciation Expense	<u>25,755</u>	<u>34,457</u>	<u>(8,702)</u>

#### **Long-Term Liabilities**

In fiscal year 2008 the District issued bonds for a building improvement project in the amount of \$9,950,000. Severance liability was increased by \$33,014.

#### **Factors Bearing on the District's Future**

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Independent School District No. 403  
Ivanhoe, Minnesota

**Contacting the District's Management**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Independent School District No. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<b><u>2008</u></b>	<b><u>2007</u></b>
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash and Investments	10,854,865	776,672
Receivables:		
Property Taxes	132,335	101,635
Governmental Units	365,442	207,049
Other	55,188	13,588
Inventory	1,507	1,997
Total Current Assets	<u>11,409,337</u>	<u>1,100,941</u>
<b>Noncurrent Assets</b>		
Capital Assets:		
Land	9,694	9,694
Land Improvements	13,056	13,056
Buildings and Improvements	1,169,038	1,118,856
Equipment	222,578	210,967
Pupil Transportation Vehicles	334,663	334,663
Construction in Process	109,417	
Less: Accumulated Depreciation	<u>(1,390,919)</u>	<u>(1,365,164)</u>
Total Noncurrent Assets	<u>467,527</u>	<u>322,072</u>
<b>Total Assets</b>	<u><u>11,876,864</u></u>	<u><u>1,423,013</u></u>
<b><u>Liabilities</u></b>		
Salaries Payable	93,383	94,176
Accounts Payable	81,160	17,255
Due to Other Governmental Units	133,219	21,464
Payroll Deductions	91,434	100,062
Deferred Revenue	6,980	15,202
Property Taxes Levied for Subsequent Year	270,630	200,843
Long-term Liabilities:		
Portion Due Within One Year	40,563	35,695
Portion Due in More Than One Year	<u>10,133,237</u>	<u>155,091</u>
<b>Total Liabilities</b>	<u><u>10,850,606</u></u>	<u><u>639,788</u></u>
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	358,110	322,072
Restricted for:		
General Fund Operating Capital Purposes	372,986	399,946
General Fund State Mandated Purposes	54,258	41,161
Food Service	19,180	20,480
Community Service	6,062	3,884
Capital Projects	(245,894)	
Debt Service	293,210	
Unrestricted	<u>168,346</u>	<u>(4,318)</u>
<b>Total Net Assets</b>	<u><u>1,026,258</u></u>	<u><u>783,225</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>11,876,864</u></u>	<u><u>1,423,013</u></u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Government Activities	
					2008	2007
<b>Governmental Activities</b>						
District and School Administration	158,916				(158,916)	(173,332)
District Support Services	46,087				(46,087)	(43,283)
Regular Instruction	1,145,203	457,919	81,763		(605,521)	(615,327)
Vocational Instruction	99,290				(99,290)	(94,834)
Exceptional Instruction	160,601		92,036		(68,565)	(173,128)
Instructional Support Services	42,233		21,505		(20,728)	(19,978)
Pupil Support Services	144,227				(144,227)	(150,321)
Site, Buildings and Equipment	228,361		11,840		(216,521)	(167,854)
Fiscal and Other Fixed Cost Programs	10,189				(10,189)	(12,755)
Food Service	89,781	48,827	38,986		(1,968)	3,265
Community Service	31,839	7,425	10,508		(13,906)	(15,276)
Total	<u>2,156,727</u>	<u>514,171</u>	<u>256,638</u>	<u>-0-</u>	<u>(1,385,918)</u>	<u>(1,462,823)</u>
<b><u>General Revenues</u></b>						
Property Taxes Levied for:						
General Purposes					203,449	72,905
Community Service					15,248	9,699
Federal and State Aid Not Restricted to Specific Purposes					1,302,423	1,141,012
Earnings on Investments					75,877	34,528
Miscellaneous					31,954	38,984
Total General Revenues					<u>1,628,951</u>	<u>1,297,128</u>
Change in Net Assets					243,033	(165,695)
Net Assets - Beginning					783,225	948,920
Net Assets - Ending					<u>1,026,258</u>	<u>783,225</u>

See accompanying notes to the financial statements.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	2008	2007
<b><u>Assets</u></b>							
Cash and Investments	902,518	22,243	25,038	9,611,856	293,210	10,854,865	776,672
Current Property Taxes Receivable	124,703		5,331			130,034	100,434
Delinquent Property Taxes Receivable	1,916		385			2,301	1,201
Accounts Receivable	34	695				729	1,263
Interest Receivable	10,441			44,018		54,459	12,325
Due From Other Minnesota Districts	193,234		2,678			195,912	69,067
Due From Department of Education	148,763		1,105			149,868	136,401
Due From Other Governmental Units	19,662					19,662	1,581
Inventory		1,507				1,507	1,997
Total Assets	<u>1,401,271</u>	<u>24,445</u>	<u>34,537</u>	<u>9,655,874</u>	<u>293,210</u>	<u>11,409,337</u>	<u>1,100,941</u>
<b><u>Liabilities and Fund Equity</u></b>							
<b><u>Liabilities</u></b>							
Salaries Payable	87,592	4,969	822			93,383	94,176
Accounts Payable	18,704	296	975	61,185		81,160	17,255
Due to Other Governmental Units	362					362	621
Due to Other Minnesota School Districts	124,454		8,403			132,857	20,843
Payroll Deductions	91,434					91,434	100,062
Deferred Revenue-Other			6,980			6,980	15,202
Deferred Revenue-Delinquent Taxes	1,916		385			2,301	790
Property Taxes Levied for Subsequent Years	259,720		10,910			270,630	200,843
Total Liabilities	<u>584,182</u>	<u>5,265</u>	<u>28,475</u>	<u>61,185</u>	<u>-0-</u>	<u>679,107</u>	<u>449,792</u>
<b><u>Fund Equity</u></b>							
Fund Balance-Reserved	651,106		6,062			657,168	629,737
Fund Balance-Unreserved	165,983	19,180	-0-	9,594,689	293,210	10,073,062	21,412
Total Fund Equity	<u>817,089</u>	<u>19,180</u>	<u>6,062</u>	<u>9,594,689</u>	<u>293,210</u>	<u>10,730,230</u>	<u>651,149</u>
Total Liabilities and Equity	<u>1,401,271</u>	<u>24,445</u>	<u>34,537</u>	<u>9,655,874</u>	<u>293,210</u>	<u>11,409,337</u>	<u>1,100,941</u>

See accompanying notes to the financial statements.



**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2008**

	<u>2008</u>		<u>2007</u>
Total Governmental Fund Balances	10,730,230		651,149
Amounts reported in Governmental Activities in The Statement of Net Assets are Different Because:			
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds			
Cost of Capital Assets	1,858,446		1,687,236
Less: Accumulated Depreciation	<u>(1,390,919)</u>	467,527	<u>(1,365,164)</u>
			322,072
Some of the District's 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 revenue.			
		2,301	790
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:			
Bonds Payable	(9,950,000)		
Severance Payable	<u>(223,800)</u>	<u>(10,173,800)</u>	<u>(190,786)</u>
			(190,786)
Net Assets of Governmental Activities		<u>1,026,258</u>	<u>783,225</u>

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service	2008	2007
<b>Revenues</b>							
Local Property Tax Levies	201,996		15,190			217,186	82,376
Other Local and County Revenues	507,882	668	8,319	47,316		564,185	136,071
Revenue from State Sources	1,503,854	5,709	10,508			1,520,071	1,320,789
Revenue from Federal Sources	5,713	33,277				38,990	23,255
Other	8,990	48,827				57,817	77,496
Total Revenues	2,228,435	88,481	34,017	47,316	-0-	2,398,249	1,639,987
<b>Expenditures</b>							
District and School Administration	158,916					158,916	173,332
District Support Services	46,087					46,087	43,283
Regular Instruction	1,110,338					1,110,338	803,320
Vocational Instruction	99,130					99,130	94,674
Exceptional Instruction	160,601					160,601	179,149
Community Education and Services			31,839			31,839	32,929
Instructional Support Services	42,233					42,233	41,261
Pupil Support Services	133,181	89,781				222,962	223,536
Site, Buildings and Equipment	277,456			109,417		386,873	216,052
Fiscal and Other Fixed Cost Programs	10,189					10,189	12,755
Total Expenditures	2,038,131	89,781	31,839	109,417	-0-	2,269,168	1,820,291
Excess Revenues (Expenditures)	190,304	(1,300)	2,178	(62,101)	-0-	129,081	(180,304)
<b>Other Financing Sources (Uses)</b>							
Bond Proceeds				9,950,000		9,950,000	
Transfers In					293,210	293,210	
Transfers Out				(293,210)		(293,210)	
Total Other Financing Sources (Uses)	-0-	-0-	-0-	9,656,790	293,210	9,950,000	-0-
Net Change in Fund Balance	190,304	(1,300)	2,178	9,594,689	293,210	10,079,081	(180,304)
Fund Balance-Beginning	626,785	20,480	3,884	-0-	-0-	651,149	831,453
Fund Balance-Ending	817,089	19,180	6,062	9,594,689	293,210	10,730,230	651,149

See accompanying notes to the financial statements.

**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, 2008**

	<u>2008</u>	<u>2007</u>
Net Change in Governmental Fund Balances	10,079,081	(180,304)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital Outlay	171,210		14,917	
Depreciation Expense	<u>(25,755)</u>	145,455	<u>(34,457)</u>	(19,540)

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Bond Proceeds	(9,950,000)			
Severance	<u>(33,014)</u>	(9,983,014)	<u>33,921</u>	33,921

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore are deferred in the funds.

1,511	228
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Change in Net Assets of Governmental Activities	<u>243,033</u>	<u>(165,695)</u>
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See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<b><u>Revenues</u></b>				
Local Property Tax Levies	207,271	207,271	201,996	(5,275)
Other Local and County Revenues	491,121	491,121	507,882	16,761
Revenue from State Sources	1,455,492	1,455,492	1,503,854	48,362
Revenue from Federal Sources	1,500	1,500	5,713	4,213
Other	7,500	7,500	8,990	1,490
Total Revenues	2,162,884	2,162,884	2,228,435	65,551
<b><u>Expenditures</u></b>				
District and School Administration	191,297	191,297	158,916	32,381
District Support Services	43,906	43,906	46,087	(2,181)
Regular Instruction	1,170,587	1,170,587	1,110,338	60,249
Vocational Instruction	100,687	100,687	99,130	1,557
Exceptional Instruction	204,457	204,457	160,601	43,856
Instructional Support Services	44,221	44,221	42,233	1,988
Pupil Support Services	123,017	123,017	133,181	(10,164)
Site, Building and Equipment	324,535	324,535	277,456	47,079
Fiscal and Other Fixed Cost Programs	15,000	15,000	10,189	4,811
Total Expenditures	2,217,707	2,217,707	2,038,131	179,576
Net Change in Fund Balance	<u>(54,823)</u>	<u>(54,823)</u>	190,304	<u>245,127</u>
Fund Balance-Beginning			626,785	
Fund Balance-Ending			<u>817,089</u>	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR FOOD SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<b><u>Revenues</u></b>				
Other Local and County Revenues	275	275	668	393
Revenue from State Sources	4,032	4,032	5,709	1,677
Revenue from Federal Sources	28,350	28,350	33,277	4,927
Other	48,450	48,450	48,827	377
Total Revenues	81,107	81,107	88,481	7,374
<b><u>Expenditures</u></b>				
Pupil Support Services	93,803	93,803	89,781	4,022
Total Expenditures	93,803	93,803	89,781	4,022
Net Change in Fund Balance	<u>(12,696)</u>	<u>(12,696)</u>	(1,300)	<u>11,396</u>
Fund Balance-Beginning			20,480	
Fund Balance-Ending			<u>19,180</u>	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR COMMUNITY SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<b><u>Budgeted Amounts</u></b>		<b><u>Actual</u></b>	<b><u>Better/(Worse)</u></b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Amounts</u></b>	<b><u>Than Final</u></b>
				<b><u>Budget</u></b>
<b><u>Revenues</u></b>				
Local Property Tax Levies	9,469	9,469	15,190	5,721
Other Local and County Revenues	10,270	10,270	8,319	(1,951)
Revenue from State Sources	14,827	14,827	10,508	(4,319)
Total Revenues	34,566	34,566	34,017	(549)
<b><u>Expenditures</u></b>				
Community Education and Services	43,882	43,882	31,839	12,043
Total Expenditures	43,882	43,882	31,839	12,043
Net Change in Fund Balance	<u>(9,316)</u>	<u>(9,316)</u>	2,178	<u>11,494</u>
Fund Balance-Beginning			3,884	
Fund Balance-Ending			<u>6,062</u>	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR CAPITAL PROJECTS FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<b><u>Revenues</u></b>				
Other Local and County Revenues			47,316	47,316
Total Revenues	-0-	-0-	47,316	47,316
<b><u>Expenditures</u></b>				
Site, Building and Equipment			109,417	(109,417)
Total Expenditures	-0-	-0-	109,417	(109,417)
Excess Revenues (Expenditures)	-0-	-0-	(62,101)	(62,101)
<b><u>Other Financing Sources (Uses)</u></b>				
Bond Proceeds			9,950,000	9,950,000
Transfers Out			(293,210)	(293,210)
Total Other Financing Sources (Uses)	-0-	-0-	9,656,790	9,656,790
Net Change in Fund Balance	-0-	-0-	9,594,689	9,594,689
Fund Balance-Beginning			-0-	
Fund Balance-Ending			9,594,689	

See accompanying notes to the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR DEBT SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<b><u>Revenues</u></b>				
Total Revenues	-0-	-0-	-0-	-0-
<b><u>Expenditures</u></b>				
Total Expenditures	-0-	-0-	-0-	-0-
Excess Revenues (Expenditures)	-0-	-0-	-0-	-0-
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	-0-	-0-	293,210	293,210
Net Change in Fund Balance	-0-	-0-	293,210	293,210
Fund Balance-Beginning			-0-	
Fund Balance-Ending			293,210	

See accompanying notes to the financial statements.



**STATEMENT OF FIDUCIARY ASSETS**  
**EXPENDABLE TRUST FUND**  
**JUNE 30, 2008**

	<u>2008</u>	<u>2007</u>
<b><u>Assets</u></b>		
Cash and Investments	5,186	5,671
<b>Total Assets</b>	<u>5,186</u>	<u>5,671</u>
 <b><u>Net Assets</u></b>		
Reserved for Scholarships	5,186	5,671
<b>Total Net Assets</b>	<u>5,186</u>	<u>5,671</u>

See accompanying notes to the financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**EXPENDABLE TRUST FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b><u>Additions</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Gifts and Bequests		574
Interest Income	215	227
Total Additions	215	801
 <b><u>Deductions</u></b>		
Scholarships	700	1,150
Change in Net Assets	(485)	(349)
 Net Assets - Beginning of Year	5,671	6,020
Net Assets - End of Year	<u>5,186</u>	<u>5,671</u>

See accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1      Summary of Significant Accounting Policies**

**A.      Basis of Presentation**

The financial statements of Independent School District No. 403 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B.      Financial Reporting Entity**

Independent School District 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**B.     Financial Reporting Entity - continued**

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

**C.     Basic Financial Statement Presentation**

The District-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Assets at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the District-wide financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**C.     Basic Financial Statement Presentation - continued**

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

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

**D.     Basis of Accounting and Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**D.     Basis of Accounting and Measurement Focus - continued**

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

**Governmental Funds**

**General Fund**

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

**Debt Service Fund**

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**Note 1      Summary of Significant Accounting Policies - continued**

**D.      Basis of Accounting and Measurement Focus - continued**

**Capital Projects Fund**

The Capital Projects Fund is used to record all operations of the District's building construction program that are funded by the sale of bonds, donations and interest income.

**Fiduciary Funds**

**Agency Fund**

The Agency Fund is used to account for the assets belonging to student organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

**E.      Budgets and Budgetary Accounting**

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

**F.      Cash and Temporary Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1      Summary of Significant Accounting Policies - continued**

**F.      Cash and Temporary Investments - continued**

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

**G.      Accounts Receivable**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**H.      Inventories**

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

**I.      Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

**J.      Property Tax Recognition**

The levy certification is made in December of each year. The tax levy is collectible as of January 2<sup>nd</sup> of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**J.     Property Tax Recognition - continued**

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2008, and will be recognized as revenue during the fiscal year ending June 30, 2009. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

**K.     Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

**L.     Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**L.     Long-Term Obligations - continued**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M.     Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose (see Note 9).

**N.     Net Assets**

Net assets represent the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**O.     Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 1     Summary of Significant Accounting Policies - continued**

**P.     Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**Note 2     Deposits and Investments**

**A.     Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the District's bank balance of \$387,958 was exposed to custodial credit risk.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 2     Cash and Investments - continued**

**B.     Investments**

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District's investments are potentially subject to various risks including the following:

**Custodial Credit Risk**

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

**Credit Risk**

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 2     Cash and Investments - continued**

**B.     Investments - continued**

**Concentration of Credit Risk**

The risk of loss that may be caused by the District's investment in a single issuer.

**Interest Rate Risk**

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Investment Pools					
Minnesota School District Liquid Asset Fund Plus					
Liquid Class	AAAm	S & P	N/A	N/A	294
Minnesota School District Liquid Asset Fund Plus					
MAX Class	AAAm	S & P	5%	N/A	571,513
MN Trust	Aaa	Moody's	95%	N/A	9,905,066
Total Investments					10,476,873
Nonnegotiable Certificates of Deposit					307,783
Deposits					75,395
Total Cash and Investments					<u>10,860,051</u>

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments – statement of net assets	10,854,865
Cash and temporary investments – statement of fiduciary net assets	5,186
	<u>10,860,051</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 3      Due From Other Minnesota School Districts**

The amounts due from other Minnesota School Districts are as follows:

	<b><u>June 30</u></b>	
<b><u>General Fund</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Independent School District No. 402		
Hendricks -- Reimbursable Expenses	176,160	57,630
Independent School District No. 404		
Lake Benton -- Reimbursable Expenses	15,184	6,804
SW/WC Coop -- Montevideo		
Special Education Flow Thru	1,385	458
Independent School District No. 415		
Lynd -- Reimbursable Expenses	<u>505</u>	
Total General Fund	193,234	<u>64,892</u>
<b><u>Special Revenue Fund</u></b>		
<b><u>Community Service Fund</u></b>		
Independent School District No. 415		
Lynd -- Reimbursable Expenses	193	
Independent School District No. 402		
Hendricks -- Reimbursable Expenses	<u>2,485</u>	<u>4,175</u>
Total Special Revenue Funds	<u>2,678</u>	<u>4,175</u>
Total All Funds	<u>195,912</u>	<u>69,067</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 4     Due From Department of Education**

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
<b><u>General Fund</u></b>		
General Education Aid	169,335	169,115
Other State Credits	1,471	1,050
Special Education	<u>(22,043)</u>	<u>(34,886)</u>
Total General Fund	148,763	135,279
 <b><u>Special Revenue Funds</u></b>		
<b><u>Community Service Fund</u></b>		
Early Childhood and Family Education	777	747
Other State Credits	<u>328</u>	<u>375</u>
Total Community Services	<u>1,105</u>	<u>1,122</u>
Total Special Revenue Funds	<u>1,105</u>	<u>1,122</u>
Total All Funds	<u>149,868</u>	<u>136,401</u>

**Note 5     Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance</u> <u>7/01/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/08</u>
Land	9,694			9,694
Land Improvements	13,056			13,056
Buildings	1,118,856	50,182		1,169,038
Equipment	210,967	11,611		222,578
Eligible Pupil				
Transportation Vehicles	334,663			334,663
Construction In Process	-0-	109,417		109,417
Less: Accumulated				
Depreciation	<u>(1,365,164)</u>	<u>(25,755)</u>		<u>(1,390,919)</u>
Net Capital Assets	<u>322,072</u>	<u>145,455</u>	<u>-0-</u>	<u>467,527</u>

Depreciation expense of \$25,755 for the year ended June 30, 2008 was charged to the following governmental functions:

Regular Instruction	3,917
Vocational Instruction	160
Pupil Support Services	11,046
Sites, Buildings, and Equipment	<u>10,632</u>
Total	<u>25,755</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 6    Due To Other Minnesota School Districts**

The amounts due to other Minnesota School Districts are as follows:

	<b><u>June 30</u></b>	
<b><u>General Fund</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Independent School District No. 402		
Hendricks – Reimbursements	98,717	
Independent School District No. 2902		
RTR – Reimbursements		1,036
Independent School District No. 099		
SW/WC Service Coop – Reimbursements	16,830	1,038
Independent School District No. 404		
Lake Benton - Reimbursements	<u>8,907</u>	<u>2,083</u>
Total General Fund	124,454	4,157
 <b><u>Special Revenue Fund</u></b>		
<b><u>Food Service</u></b>		
Independent School District No. 402		
Hendricks – Reimbursements		434
<b><u>Community Service Fund</u></b>		
Independent School District No. 402		
Hendricks – Reimbursements	<u>8,403</u>	<u>16,252</u>
Total Special Revenue Funds	<u>8,403</u>	<u>16,686</u>
Total All Funds	<u>132,857</u>	<u>20,843</u>

**Note 7    Due to Other Governmental Units**

Amounts due to Other Governmental Units are as follows:

	<b><u>June 30</u></b>	
<b><u>General Fund</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Minnesota Department of Revenue		
Sales Tax	<u>362</u>	<u>621</u>
Total General Fund	<u>362</u>	<u>621</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 8     Long-Term Liabilities**

**A.     Bonds Payable**

Bonds payable at June 30, 2008 are comprised of the following items:

	<b><u>Balance</u></b> <b><u>June 30, 2008</u></b>
General Obligation School Building Bonds, Series 2008A, due in annual installments of \$235,000 to \$635,000 through February 1, 2034, interest at 3.00% to 4.15%.	<u>9,950,000</u>
Total Bonds Payable	<u>9,950,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2008, including interest payments, are listed below.

**Year Ended**

<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2009	-0-	293,210	293,210
2010	235,000	388,073	623,073
2011	245,000	381,023	626,023
2012	255,000	373,673	628,673
2013	265,000	366,023	631,023
2014-2018	1,490,000	1,683,463	3,173,463
2019-2023	1,820,000	1,375,188	3,195,188
2024-2028	2,230,000	980,188	3,210,188
2029-2033	2,775,000	486,843	3,261,843
2034	635,000	26,353	661,353
Total	<u>9,950,000</u>	<u>6,354,037</u>	<u>16,304,037</u>

**B.     Changes in Long-Term Liabilities**

The following is a schedule of the changes in Long-Term Liabilities:

	<b><u>Balance</u></b> <b><u>7/01/07</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Balance</u></b> <b><u>6/30/08</u></b>	<b><u>Due Within</u></b> <b><u>One Year</u></b>
Bonds Payable	-0-	9,950,000		9,950,000	-0-
Severance Pay	190,786	66,438	33,424	223,800	40,563
Total	<u>190,786</u>	<u>10,016,438</u>	<u>33,424</u>	<u>10,173,800</u>	<u>40,563</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 9     Reserved Fund Balances**

A portion of the fund balances are reserved based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other various requirements. A summary of the changes during the past fiscal year are as follows:

<u>General</u>	<u>Balance</u> <u>7/01/07</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance</u> <u>6/30/08</u>
Severance Pay	185,286	72,000	33,424	223,862
Health & Safety	(19,183)	21,264	33,290	(31,209)
Disabled Accessibility	61,275			61,275
Learning & Development	-0-	31,192	26,904	4,288
Operating Capital				
Equipment	399,946	47,272	74,232	372,986
Staff Development	-0-	21,505	19,362	2,143
Gifted & Talented	-0-	2,543	1,248	1,295
Basic Skills	-0-	48,027	45,619	2,408
Safe Schools	(931)	5,156	2,431	1,794
Deferred Maintenance	-0-	12,264		12,264
Total General	626,393	261,223	236,510	651,106
 <u>Special Revenue</u>				
<u>Community Services</u>				
Community Education	(2,998)	19,627	10,401	6,228
School Readiness	(5,121)	1,800	5,566	(8,887)*
Early Childhood and				
Family Education	11,463	13,129	15,871	8,721*
Total Special Revenue	3,344	34,556	31,838	6,062
Total All Funds	629,737	295,779	268,348	657,168

*Reserved*

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10    Pension Plan**

**A.    Teacher Retirement Association**

**1.    Plan Description**

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Assoc. TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356. TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

<b><u>Tier I</u></b>	<b><u>Step Rate Formula</u></b>	<b><u>Percentage</u></b>
<b>Basic</b>	1 <sup>st</sup> ten years if service years are prior to July 1, 2006	2.2 percent per year
	1 <sup>st</sup> ten years if service years are July 1, 2006 or after	2.7 percent per year
<b>Coordinated</b>	1 <sup>st</sup> ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if Service years are July 1, 2006 or after	1.9 percent per year

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10   Pension Plan - continued**

**A.   Teacher Retirement Association - continued**

**1.   Plan Description - continued**

With these provisions:

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

Or

**Tier II:** For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10    Pension Plan - continued**

**A.    Teacher Retirement Association - continued**

**2.    Plan Description - continued**

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA Web site [www.tra.state.mn.us](http://www.tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association  
60 Empire Drive, Suite 400  
St Paul MN 55103-1855  
(651) 296-6449  
(800) 657-3853

**2.    Funding Policy**

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates are 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members will rise to 5.5 percent and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2007 were approximately \$3.532 billion.

The District's contributions for the years ending June 30, 2008, 2007 and 2006, were \$44,343, \$37,389, and \$39,283, respectively, equal to the required contributions for each year as set by state statute.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10    Pension Plan - continued**

**B.    Public Employees Retirement Association (PERA)**

**1.    Plan Description**

All full-time and certain part-time employees of the District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employee Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10    Pension Plan - continued**

**B.    Public Employees Retirement Association (PERA) - continued**

**1.    Plan Description - continued**

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 10    Pension Plan - continued**

**B.    Public Employees Retirement Association (PERA) - continued**

**2.    Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5% effective January 1, 2008. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2008, 2007, and 2006, were \$15,953, \$14,122, and \$13,223, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**Note 11    Vacation and Sick Leave**

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year around employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 11    Vacation and Sick Leave - continued**

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

**Note 12    Excess Expenditures over Budget Appropriations**

The following funds had excess expenditures over budget appropriations for the year ended June 30, 2008:

Capital Projects Fund	109,417
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**Note 13    Transfers**

During the year the following transfer was made from the capital projects fund to the debt service fund to provide funds to make the interest payment on the General Obligation School Building Bonds Series 2008A.

	<u>To</u>	<u>From</u>
Debt Service Fund	293,210	
Capital Projects Fund		<u>293,210</u>
Total	<u>293,210</u>	<u>293,210</u>

**Note 14    Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

**GENERAL FUND**  
**BALANCE SHEET**  
**JUNE 30, 2008**

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and Investments	902,518	715,725
Current Property Taxes Receivable	124,703	96,119
Delinquent Property Taxes Receivable	1,916	853
Accounts Receivable	34	906
Interest Receivable	10,441	12,325
Due From Other Minnesota Districts	193,234	64,892
Due From Department of Education	148,763	135,279
Due From Other Governmental Units	19,662	1,581
Total Assets	<u>1,401,271</u>	<u>1,027,680</u>
<u>Liabilities and Fund Equity</u>		
<u>Liabilities</u>		
Salaries Payable	87,592	86,700
Accounts Payable	18,704	16,547
Due to Other Governmental Units	362	621
Due to Other Minnesota School Districts	124,454	4,157
Payroll Deductions	91,434	100,062
Deferred Revenue-Delinquent Taxes	1,916	463
Property Taxes Levied for Subsequent Years	<u>259,720</u>	<u>192,345</u>
Total Liabilities	<u>584,182</u>	<u>400,895</u>
<u>Fund Equity</u>		
Fund Balance-Reserved	651,106	626,393
Fund Balance-Unreserved	<u>165,983</u>	<u>392</u>
Total Fund Equity	<u>817,089</u>	<u>626,785</u>
Total Liabilities and Equity	<u>1,401,271</u>	<u>1,027,680</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008		Better/(Worse)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	207,271	201,996	(5,275)	72,664
<u>Other Local and County Revenues</u>				
County Apportionment	4,000	6,851	2,851	3,980
Admissions	19,790	23,167	3,377	26,761
Tuition from Other Minnesota Districts	379,779	396,291	16,512	
Interest Income	26,912	27,094	182	32,209
Tuition from Out of State Districts	51,730	38,461	(13,269)	51,730
Other Revenues	8,910	16,018	7,108	12,548
Total Other Local				
County Revenues	491,121	507,882	16,761	127,228
<u>Revenue From State Sources</u>				
General Education	1,330,075	1,402,615	72,540	1,306,896
Special Education	92,903	86,498	(6,405)	(13,211)
Disparity Reduction Aid	6,356	6,356	0	5,833
Market Value Credit	8,350	8,350	0	4,521
Other State Aids	17,808	35	(17,773)	143
Total Revenue From State Sources	1,455,492	1,503,854	48,362	1,304,182
<u>Revenue From Federal Sources</u>				
Federal Aid Programs	1,500	5,713	4,213	(7,190)
<u>Sales and Other Conversion of Assets</u>				
Judgments		1,451	1,451	11,457
Sale of Equipment				800
Sale of Materials	7,500	7,539	39	10,109
Total Sales and Other Conversion of Assets	7,500	8,990	1,490	22,366
Total Revenues	2,162,884	2,228,435	65,551	1,519,250

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008			
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
Salaries	135,662	112,540	23,122	125,479
Travel	4,217	5,125	(908)	9,622
Fixed Charges	26,530	23,551	2,979	18,269
Contracted Services	16,800	10,924	5,876	12,851
Supplies	2,400	1,127	1,273	909
Tuition to Other Minnesota School Districts				1,774
Other	5,688	5,649	39	4,428
Total District and School Administration	191,297	158,916	32,381	173,332
<u>District Support</u>				
Salaries	42,700	43,367	(667)	42,700
Supplies	1,409	1,620	(211)	2,004
Legal and Professional Services	7,500	9,311	(1,811)	7,524
Other	855	780	75	665
Dues and Memberships	6,750	6,395	355	6,050
Fixed Charges	13,067	12,497	570	11,369
Travel	1,000	1,453	(453)	1,620
Pairing/Sharing Chargebacks	(29,375)	(29,336)	(39)	(28,649)
Total District Support Services	43,906	46,087	(2,181)	43,283
<u>Regular Instruction</u>				
<u>Elementary School</u>				
Salaries	217,040	172,116	44,924	236,674
Fixed Charges	49,741	36,070	13,671	60,150
Tuition to Other Minnesota School Districts	379,481	368,154	11,327	
Other		4,695	(4,695)	1,752
Pairing/Sharing Chargebacks	(248,790)	(204,160)	(44,630)	(36,454)
Total Elementary	397,472	376,875	20,597	262,122

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008		Better/(Worse)	
	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<b><u>Expenditures - continued</u></b>				
<b><u>Regular Instruction - continued</u></b>				
<b><u>Secondary School</u></b>				
Salaries	492,424	450,236	42,188	463,710
Instructional Supplies	31,649	21,634	10,015	26,627
Fixed Charges	129,326	111,522	17,804	113,075
Travel	24,266	23,218	1,048	19,005
Dues and Memberships	1,990	2,283	(293)	1,680
Workers Compensation	8,575	10,755	(2,180)	7,248
Repairs and Maintenance	18,420	8,351	10,069	16,693
Tuition to Other Minnesota				
School Districts	28,398	44,125	(15,727)	30,372
Professional Services	20,925	28,449	(7,524)	18,832
Equipment	10,936	14,767	(3,831)	11,187
Other	21,375	17,341	4,034	20,400
Pairing/Sharing Chargebacks	(15,169)	782	(15,951)	(187,631)
Total Secondary	<u>773,115</u>	<u>733,463</u>	<u>39,652</u>	<u>541,198</u>
Total Regular Instruction	<u>1,170,587</u>	<u>1,110,338</u>	<u>60,249</u>	<u>803,320</u>
<b><u>Vocational Instruction</u></b>				
Salaries	66,337	66,220	117	93,428
Instructional Supplies	11,350	10,564	786	6,965
Fixed Charges	21,000	20,278	722	27,571
Other	1,800	1,838	(38)	7,490
Repair and Maintenance	200	230	(30)	532
Pairing/Sharing Chargebacks				(41,312)
Total Vocational Instruction	<u>100,687</u>	<u>99,130</u>	<u>1,557</u>	<u>94,674</u>
<b><u>Exceptional Instruction</u></b>				
Salaries	122,077	118,868	3,209	129,370
Instructional Supplies	936	967	(31)	2,290
Travel	1,531	1,534	(3)	1,710
Tuition to Other Minnesota				
School Districts	33,176	7,014	26,162	11,232
Fixed Charges	46,737	32,002	14,735	34,237
Equipment		216	(216)	310
Total Exceptional Instruction	<u>204,457</u>	<u>160,601</u>	<u>43,856</u>	<u>179,149</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008		Better/(Worse)	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<u>Instructional Support Services</u>				
Salaries	15,939	23,337	(7,398)	27,295
Supplies	950	1,063	(113)	1,167
Library Books and Materials	700	694	6	2,146
Fixed Charges	8,358	8,195	163	8,421
Legal and Professional Services	11,500	3,066	8,434	3,057
Travel	6,274	5,378	896	3,684
Equipment	500	500		
Pairing/Sharing Chargebacks				(4,509)
Total Instructional Support	44,221	42,233	1,988	41,261
<u>Pupil Support</u>				
Salaries	62,217	70,018	(7,801)	65,422
Fixed Charges	13,864	14,300	(436)	13,561
Supplies	485	22	463	221
Transportation Chargebacks	(21,000)	(28,739)	7,739	(21,930)
Insurance	6,810	5,447	1,363	7,099
Gas and Repairs	47,000	59,252	(12,252)	44,752
Professional Fees	4,640	1,752	2,888	576
Other	9,725	10,819	(1,094)	21,671
Pairing/Sharing Chargebacks	(724)	310	(1,034)	4,466
Total Pupil Support	123,017	133,181	(10,164)	135,838
<u>Site, Building and Equipment</u>				
Salaries	68,522	66,958	1,564	66,165
Supplies	7,181	2,212	4,969	6,428
Telephone	5,500	5,979	(479)	73
Utilities	27,500	29,756	(2,256)	27,033
Fuel	41,500	40,612	888	36,011
Repair and Maintenance Service	20,000	22,869	(2,869)	19,170
Fixed Charges	21,021	20,503	518	19,702
Building Improvements	73,231	38,139	35,092	5,797
Equipment	36,825	33,073	3,752	25,256
Equipment Lease	300	432	(132)	432
Professional Services	22,304	16,039	6,265	9,921
Other	651	884	(233)	64
Total Site, Building and Equipment	324,535	277,456	47,079	216,052

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008			
	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<b><u>Expenditures - continued</u></b>				
<b><u>Fixed Cost Programs</u></b>				
Property Insurance	15,000	10,189	4,811	12,755
Total Expenditures	<u>2,217,707</u>	<u>2,038,131</u>	<u>179,576</u>	<u>1,699,664</u>
Excess Revenues (Expenditures)	<u>(54,823)</u>	<u>190,304</u>	<u>245,127</u>	<u>(180,414)</u>
Fund Balance-July 1		626,785		807,199
Fund Balance-June 30		<u>817,089</u>		<u>626,785</u>

*Net Profit!*

**ALL SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2008**

			Total (Memo Only)	
<u>Assets</u>	<u>Food Service</u>	<u>Community Service</u>	<u>2008</u>	<u>2007</u>
Cash and Investments	22,243	25,038	47,281	60,947
Current Property Taxes Receivable		5,331	5,331	4,315
Delinquent Property Taxes Receivable		385	385	348
Accounts Receivable	695		695	357
Due from Other Minnesota Districts		2,678	2,678	4,175
Due from Department of Education		1,105	1,105	1,122
Inventory	1,507		1,507	1,997
Total Assets	<u>24,445</u>	<u>34,537</u>	<u>58,982</u>	<u>73,261</u>
 <b><u>Liabilities and Fund Equity</u></b>				
<b><u>Liabilities</u></b>				
Accounts Payable	296	975	1,271	708
Salaries Payable	4,969	822	5,791	7,476
Due to Other Minnesota Districts		8,403	8,403	16,686
Deferred Revenue - Other		6,980	6,980	15,202
Deferred Revenue - Delinquent Taxes		385	385	327
Property Taxes Levied for Subsequent Years Expenditures		10,910	10,910	8,498
Total Liabilities	<u>5,265</u>	<u>28,475</u>	<u>33,740</u>	<u>48,897</u>
 <b><u>Fund Equity</u></b>				
Fund Balance-Reserved		6,062	6,062	3,344
Fund Balance-Unreserved	19,180	-0-	19,180	21,020
Total Fund Equity	<u>19,180</u>	<u>6,062</u>	<u>25,242</u>	<u>24,364</u>
Total Liabilities and Fund Equity	<u>24,445</u>	<u>34,537</u>	<u>58,982</u>	<u>73,261</u>



**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Food	Community	Total (Memo Only)	
<u>Revenues</u>	<u>Service</u>	<u>Service</u>	<u>2008</u>	<u>2007</u>
Local Property Tax Levy		15,190	15,190	9,712
Other Local and County Revenues	668	8,319	8,987	8,843
Revenue from State Sources	5,709	10,508	16,217	16,607
Revenue from Federal Sources	33,277		33,277	30,445
Other	48,827		48,827	55,130
Total Revenues	88,481	34,017	122,498	120,737
<u>Expenditures</u>				
Community Education and Services		31,839	31,839	32,929
Pupil Support Services	89,781		89,781	87,698
Total Expenditures	89,781	31,839	121,620	120,627
Excess Revenues (Expenditures)	(1,300)	2,178	878	110
Fund Balance-July 1	20,480	3,884	24,364	24,254
Fund Balance-June 30	19,180	6,062	25,242	24,364

**FOOD SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008			
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>Other Local and County Revenues</u>				
Interest Income	275	668	393	807
Total Local and County Revenues	275	668	393	807
<u>Revenue From State Sources</u>				
State Lunch Reimbursement	2,032	2,733	701	2,585
Other State Aid	2,000	2,976	976	2,803
Total Revenue from State Sources	4,032	5,709	1,677	5,388
<u>Revenue From Federal Sources</u>				
Federal Lunch Reimbursement	19,350	22,509	3,159	20,662
Federal Breakfast Reimbursement	4,500	6,119	1,619	5,367
Commodities	4,500	4,649	149	4,416
Total Revenue From Federal Sources	28,350	33,277	4,927	30,445
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	48,450	48,827	377	55,130
Total Revenues	81,107	88,481	7,374	91,770
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Salaries	33,078	30,642	2,436	32,191
Food	34,100	33,677	423	32,139
Commodities	4,851	4,649	202	4,416
Fixed Charges	16,964	15,652	1,312	14,714
Repair and Maintenance Service	500	632	(132)	368
Utilities and Fuel	2,000	1,820	180	1,355
Other	785	580	205	639
General Supplies	1,525	2,129	(604)	1,441
Pairing/Sharing Chargebacks				435
Total Expenditures	93,803	89,781	4,022	87,698
Excess Revenues (Expenditures)	(12,696)	(1,300)	11,396	4,072
Fund Balance-July 1		20,480		16,408
Fund Balance-June 30		19,180		20,480

FOOD  
SERVICE

**COMMUNITY SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008		Better/(Worse)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	9,469	15,190	5,721	9,712
<u>Other Local and County Revenues</u>				
Fees from Patrons	8,780	6,839	(1,941)	6,434
Interest Income	1,400	799	(601)	1,512
Tuition From Other Minnesota Districts		586	586	
Other	90	95	5	90
Total Other Local and County Revenues	10,270	8,319	(1,951)	8,036
<u>Revenue From State Sources</u>				
Other State Aids	14,827	10,508	(4,319)	11,219
Total Revenues	34,566	34,017	(549)	28,967
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Salaries	11,604	6,324	5,280	10,319
Fixed Charges	1,868	1,094	774	1,255
Supplies	1,075	20	1,055	414
To Non-Educational Agencies	3,500		3,500	3,500
Other	5,377	1,555	3,822	4,863
Equipment	500		500	500
Pairing/Sharing Chargebacks	19,958	22,846	(2,888)	12,078
Total Expenditures	43,882	31,839	12,043	32,929
Excess Revenues (Expenditures)	(9,316)	2,178	11,494	(3,962)
Fund Balance-July 1		3,884		7,846
Fund Balance-June 30		6,062		3,884

**CAPITAL PROJECTS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30			2007
	2008			
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>Other Local and County Revenues</u>				
Interest Income		47,316	47,316	
Total Revenues	-0-	47,316	47,316	-0-
 <u>Expenditures</u>				
<u>Site, Building and Equipment</u>				
Building Improvement		61,303	(61,303)	
Professional Services		48,114	(48,114)	
Total Expenditures	-0-	109,417	(109,417)	-0-
 Excess Revenues (Expenditures)	-0-	(62,101)	(62,101)	-0-
 <u>Other Financing Sources (Uses)</u>				
Bond Proceeds		9,950,000	9,950,000	
Transfers Out		(293,210)	(293,210)	
Total Other Financing Sources (Uses)	-0-	9,656,790	9,656,790	-0-
 Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	-0-	9,594,689	9,594,689	-0-
Fund Balance-July 1		-0-		-0-
Fund Balance-June 30		9,594,689		-0-

**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	Year Ended June 30		
	2008	2007	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>
Total Revenues	-0-	-0-	-0-
<u>Expenditures</u>			
Total Expenditures	-0-	-0-	-0-
Excess Revenues (Expenditures)	-0-	-0-	-0-
<u>Other Financing Sources (Uses)</u>			
Transfers In		293,210	293,210
Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	-0-	293,210	293,210
Fund Balance-July 1		-0-	-0-
Fund Balance-June 30		293,210	-0-

*Principal's  
Intention  
will be  
paid for*

**UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b><u>01 GENERAL FUND</u></b>	<b><u>General</u></b>
Total Revenues	2,228,435
Total Expenditures	2,038,131
Reserved:	
4.03 Staff Development	2,143
4.05 Deferred Maintenance	12,264
4.06 Health and Safety	(31,209)
4.11 Severance	223,862
4.24 Operating Capital	372,986
4.27 Disabled Accessibility	61,275
4.28 Learning and Development	4,288
4.38 Gifted and Talented	1,295
4.41 Basic Skills	2,408
4.49 Safe Schools	1,794
Unreserved:	
4.22 Unreserved	165,983
<b><u>02 FOOD SERVICE</u></b>	
Total Revenues	88,481
Total Expenditures	89,781
Unreserved:	
4.22 Unreserved	19,180
<b><u>04 COMMUNITY SERVICE</u></b>	
Total Revenues	34,017
Total Expenditures	31,839
Reserved:	
4.31 Community Education	6,228
4.32 Early Child & Family Education	8,721
4.44 School Readiness	(8,887)
Unreserved:	
4.22 Unreserved	-0-
<b><u>06 CAPITAL PROJECTS</u></b>	
Total Revenues	47,316
Total Expenditures	109,417
Unreserved:	
4.22 Unreserved	9,594,689
<b><u>07 DEBT SERVICE</u></b>	
Total Revenues	-0-
Total Expenditures	-0-
Unreserved:	
4.22 Unreserved	293,210
<b><u>08 TRUST AND AGENCY</u></b>	
Total Revenues	215
Total Expenditures	700
Unreserved:	
4.22 Unreserved	5,186

**SUMMARY OF CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>General Fund</u>		<u>Food Service Fund</u>	<u>Transportation Fund</u>	
	<u>Reserved</u>	<u>Unreserved</u>		<u>Reserved</u>	<u>Unreserved</u>
Fund Balance July 1, 1995	40,514	139,887	(6,209)	70,414	(7,522)
Revenues and Transfers	12,500	1,670,178	74,297	74,806	82,573
Expenditures and Transfers	18,058	1,567,829	81,679	162	87,845
Fund Balance June 30, 1996	34,956	242,236	(13,591)	145,058	(12,794)
Revenues and Transfers	607,155	1,775,452	83,662	-0-	-0-
Expenditures and Transfers	307,171	1,699,118	84,696	145,058	(12,794)
Fund Balance June 30, 1997	334,940	318,570	(14,625)	-0-	-0-
Revenues and Transfers	306,721	1,594,869	117,397		
Expenditures and Transfers	254,376	1,764,328	103,549		
Fund Balance June 30, 1998	387,285	149,111	(777)	-0-	-0-
Revenues and Transfers	215,213	1,819,700	98,616		
Expenditures and Transfers	255,937	1,628,809	97,136		
Fund Balance June 30, 1999	346,561	340,002	703	-0-	-0-
Revenues and Transfers	520,224	1,507,795	88,427		
Expenditures and Transfers	328,635	1,494,347	97,451		
Fund Balance June 30, 2000	538,150	353,450	(8,321)	-0-	-0-
Revenues and Transfers	322,138	1,535,286	94,788		
Expenditures and Transfers	276,491	1,601,353	100,356		
Fund Balance June 30, 2001	583,797	287,383	(13,889)	-0-	-0-
Revenues and Transfers	211,960	1,624,045	105,936		
Expenditures and Transfers	314,464	1,610,428	83,859		
Fund Balance June 30, 2002	481,293	301,000	8,188	-0-	-0-
Revenues and Transfers	340,195	1,709,842	88,924		
Expenditures and Transfers	392,319	1,565,241	71,341		
Fund Balance June 30, 2003	429,169	445,601	25,771	-0-	-0-
Revenues and Transfers	179,666	1,638,609	88,400		
Expenditures and Transfers	230,741	1,491,397	85,725		
Fund Balance June 30, 2004	378,094	592,813	28,446	-0-	-0-
Revenues and Transfers	396,203	1,448,838	77,897		
Expenditures and Transfers	111,410	1,776,243	86,603		
Fund Balance June 30, 2005	662,887	265,408	19,740	-0-	-0-
Revenues and Transfers	149,158	1,698,685	86,614		
Expenditures and Transfers	152,445	1,816,494	89,946		
Fund Balance June 30, 2006	659,600	147,599	16,408	-0-	-0-
Revenues and Transfers	139,163	1,380,087	91,770		
Expenditures and Transfers	172,370	1,527,294	87,698		
Fund Balance June 30, 2007	626,393	392	20,480	-0-	-0-
Revenues and Transfers	261,223	1,967,212	88,481		
Expenditures and Transfers	236,510	1,801,621	89,781		
Fund Balance June 30, 2008	651,106	165,983	19,180	-0-	-0-

Community Service Fund		Capital Expenditure	Capital Projects	Debt Service	Trust & Agency	Total
Reserved	Unreserved	Reserved	Fund	Fund	Fund	All Funds
83,027	5,271	301,127	-0-	-0-	2,946	629,455
47,619	5,572	175,657			1,958	2,145,160
34,519	2,989	152,436			4,904	1,950,421
96,127	7,854	324,348	-0-	-0-	-0-	824,194
43,805	2,561	-0-				2,512,635
37,529	3,296	324,348				2,588,422
102,403	7,119	-0-	-0-	-0-	-0-	748,407
48,929	2,553					2,070,469
41,223	5,663					2,169,139
110,109	4,009	-0-	-0-	-0-	-0-	649,737
52,962	3,446					2,189,937
53,710	5,299					2,040,891
109,361	2,156	-0-	-0-	-0-	-0-	798,783
47,588	3,206					2,167,240
56,084	15,775					1,992,292
100,865	(10,413)	-0-	-0-	-0-	-0-	973,731
55,587	3,077					2,010,876
52,018	14,048					2,044,266
104,434	(21,384)	-0-	-0-	-0-	-0-	940,341
57,909	-0-					1,999,850
75,100	(7,619)					2,076,232
87,243	(13,765)	-0-	-0-	-0-	-0-	863,959
30,372	51					2,169,384
46,029	52					2,074,982
71,586	(13,766)	-0-	-0-	-0-	-0-	958,361
31,325	-0-				5,053	1,943,053
56,942	-0-					1,864,805
45,969	(13,766)	-0-	-0-	-0-	5,053	1,036,609
41,180	13,798				3,218	1,981,134
64,243	32				1,700	2,040,231
22,906	-0-	-0-	-0-	-0-	6,571	977,512
24,909					1,149	1,960,515
39,969					1,700	2,100,554
7,846	-0-	-0-	-0-	-0-	6,020	837,473
28,427	540				801	1,640,788
32,929					1,150	1,821,441
3,344	540	-0-	-0-	-0-	5,671	656,820
34,559	(540)		9,997,316	293,210	215	12,641,676
31,841			402,627		700	2,563,080
6,062	-0-	-0-	9,594,689	293,210	5,186	10,735,416



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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**

To The Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 7, 2008. 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 and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments* promulgated by the State Auditor pursuant to Minnesota Statute Sec 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
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To The Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 403, Ivanhoe, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 7, 2008. 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 and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments* promulgated by the State Auditor pursuant to Minnesota Statute Sec 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403, Ivanhoe, Minnesota's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Independent School District No. 403, Ivanhoe, Minnesota's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Independent School District No. 403, Ivanhoe, Minnesota's financial statements that is more than inconsequential will not be prevented or detected by the Independent School District No. 403, Ivanhoe, Minnesota's internal control. We consider the deficiencies described in the accompanying schedule of findings and recommendations (07-I and 07-II) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Independent School District No. 403, Ivanhoe, Minnesota's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-I and 07-II to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

The *Minnesota Legal Compliance Audit Guide for Local Governments* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the Independent School District No. 403, Ivanhoe, Minnesota has complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Governing Board, State Agencies, and management and is not intended to be and should not be used by anyone other than these specified parties.

*Meulebroeck, Taubert & Co., PLLP*

Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants  
October 7, 2008

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**INDEPENDENT AUDITOR'S REPORT ON THE**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**OF THE STUDENT ACTIVITY FUND**

To the Board of Education  
Independent School District NO. 403  
Ivanhoe, Minnesota

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe, Minnesota for the year ended June 30, 2008. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 provides a reasonable basis for our opinion.

The student activity account of Independent School District No. 403, Ivanhoe, Minnesota prepares its statement of cash receipts and disbursements on the cash basis which is a comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash transactions of the District's student activity account for the year ended June 30, 2008, and the cash balance at that date.

*Meulebroeck, Taubert & Co., PLLP*  
Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants

October 7, 2008

**STUDENT ACTIVITY FUND**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b><u>Organization</u></b>	<b><u>07-01-07</u></b> <b><u>Balance</u></b>	<b><u>2007-08</u></b> <b><u>Receipts</u></b>	<b><u>2007-08</u></b> <b><u>Disbursements</u></b>	<b><u>06-30-08</u></b> <b><u>Balance</u></b>
Jr. Class	6,321	7,830	8,708	5,443
Sr. FLA	108	95		203
Jr. FLA	642		34	608
Pep Club/Cheerleaders	109	549	658	0
L Club	196	13,303	11,291	2,208
General	30	37		67
Music	5,435	13,333	12,909	5,859
Art Club	4,042	4,557	5,782	2,817
SADD	185			185
Spanish	6,409	550	2,050	4,909
FFA	3,554	15,292	13,719	5,127
JO Volleyball	1,471	16,209	17,579	101
Total	<u>28,502</u>	<u>71,755</u>	<u>72,730</u>	<u>27,527</u>

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**  
**WITH LAWS AND REGULATIONS APPLICABLE TO THE**  
**STUDENT ACTIVITY FUND**

To the Board of Education  
Independent School District No. 403  
Ivanhoe, Minnesota

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe, Minnesota for the year ended June 30, 2008, and have issued our report thereon dated October 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Manual For Activity Fund Accounting (MAFA) issued by the Minnesota Department of Children, Families, and Learning, pursuant to Minnesota Statutes Section 123.38.

The Manual For Activity Fund Accounting provides uniform financial accounting and reporting standards for student activities. Compliance with the manual is the responsibility of the District's management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that for the items tested, the District has complied with the material terms and conditions of applicable legal provisions except as discussed in the Schedule of Findings and Recommendations. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the District had not complied with such legal provisions.

This report is intended solely for the information and use of the Board of Education, management and students of Independent School District No. 403, Ivanhoe, Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Meulebroeck, Taubert & Co., PLLP*  
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October 7, 2008

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**I. Previously Reported Items Not Resolved**

*07-1 Lack of Segregation of Duties*

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district will implement an internal control policy that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The policy will utilize staff and board members to ensure that segregation of duties occurs in every area.

**Bank Reconciliation:**

The bank reconciliation will be prepared by the business manager and the superintendent or board treasurer will review the bank reconciliation for unidentified variances and unusual reconciling items.

**Receipts:**

The collection, posting, and making of bank deposits will be performed by the business manager. These records will be reviewed by the superintendent or board treasurer to make sure that proper supporting documentation is present.

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**Disbursements:**

The superintendent will approve disbursement invoices for payment. The business manager will pay the invoices and post them. The school board will review the disbursements each month to check for improper or unusual transactions.

**Payroll:**

The superintendent will approve employee time records before payment. The business manager will process and post the individual payrolls. The school board will review the payroll records to check for improper or unusual transactions.

**Journal Entries:**

The superintendent will review all journal entries posted to the system on a monthly basis.

**Budget:**

The superintendent and business manager will prepare the budget and the school board will review and approve the budget. The board will review the budget vs. actual at each regular board meeting to identify any variances and unusual items.

**Official responsible for Ensuring CAP:**

The District's Superintendent in conjunction with the Business Manager is the official responsible for ensuring corrective action.

**Planned completion date for CAP:**

November 30, 2008

**Plan to monitor completion of CAP:**

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.



**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

07-II

*GAAP Financial Statements*

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Business Manager are the officials responsible for ensuring corrective action.

Planned Completion Date for CAP:

November 30, 2008

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.