

**INDEPENDENT AUDITOR'S REPORT**

**INDEPENDENT SCHOOL DISTRICT NO. 403  
IVANHOE, MINNESOTA 56142**

**FOR THE YEAR ENDING JUNE 30, 2011**

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

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Independent School District No. 403  
Ivanhoe, Minnesota

**BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL**  
**JUNE 30, 2011**

**BOARD OF EDUCATION**

Steve Citterman	Chairperson
Gene Panka	Vice-Chairperson
Marty Rost	Treasurer
Matt Lundrus	Clerk
Beth Otto	Director
Archie Citterman	Director

**ADMINISTRATIVE PERSONNEL**

Dwayne Strand Resigned 4/25/11	Superintendent
Michelle Mortensen	High School Principal Superintendent 7/1/11
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

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**CERTIFIED PUBLIC ACCOUNTANTS**

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Daryl J. Kanthak, CPA

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Amanda K. Baarson Sandy, CPA  
Amy L. Mollberg, CPA  
Marjorie R. Winter, CPA  
Sally Helgeson, CPA  
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, 2011, 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, 2010, and in our report dated October 5, 2010, 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 opinions.

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, 2011, 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.

As discussed in Note 9 to the financial statements, Independent Schools District No.403 has implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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, 2010, from which it was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 5-9 and the Schedule of Funding Progress - Other Postemployment Benefits on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and 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 financial statements. The combining and individual fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Meulebroeck, Taubert Co., PLLP*

Meulebroeck, Taubert Co., PLLP

Certified Public Accountants

December 5, 2011

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2010-2011 fiscal year include the following:

- Net assets increased by \$8,953, or .8% over June 30, 2010.
- General Fund balance increased \$105,716 or 26.1% from the prior year, total revenue decreased by \$82,607 or 3.6% from the prior year and expenditures decreased \$518,969 or 19.8% from the prior year which was due to high expenditures on capital assets during the prior fiscal year.
- Food Service Fund fund balance decreased by \$1,901 or 58.6% from the prior year, total expenditures decreased by \$4,079 or 4.4% from the prior year, and revenues increased by \$6,455 or 7.9% from prior year.
- Community Service Fund fund balance decreased by \$11,446 or 44.7% from the prior year, total revenues decrease by \$1,671 or 3.9% from the prior year, and expenditures increased by \$27,215 or 107.7% from the prior year due to increased chargebacks.
- Total expenditures decreased by \$8,728,085 or 75.3% in comparison to fiscal year 2010, while revenues decreased by \$82,673 or 2.69% in comparison to fiscal year 2010. This decrease is due primarily because of completion of the building remodeling project in prior year.

**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.

In fiscal year 2010, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB 45). Please see Note 10 for further information and the impact related to the implementation of GASB Statement 45.

Financial Analysis of the District as a Whole

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

**Table 1**  
**Statement of Net Assets**  
**As of June 30, 2011**

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current and other assets	2,350,161	1,799,483
Capital assets, net of depreciation	10,232,925	10,664,935
<b>Total Assets</b>	<b>12,583,086</b>	<b>12,464,418</b>
<u>Liabilities</u>		
Current and other liabilities	2,055,970	1,642,678
Long-term liabilities	9,329,110	9,632,687
<b>Total Liabilities</b>	<b>11,385,080</b>	<b>11,275,365</b>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	762,925	949,935
Restricted	378,593	(65,895)
Unrestricted	56,488	305,013
<b>Net Assets</b>	<b>1,198,006</b>	<b>1,189,053</b>
<b>Total Liabilities and Net Assets</b>	<b>12,583,086</b>	<b>12,464,418</b>

Independent School District No. 403  
Ivanhoe, Minnesota

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.

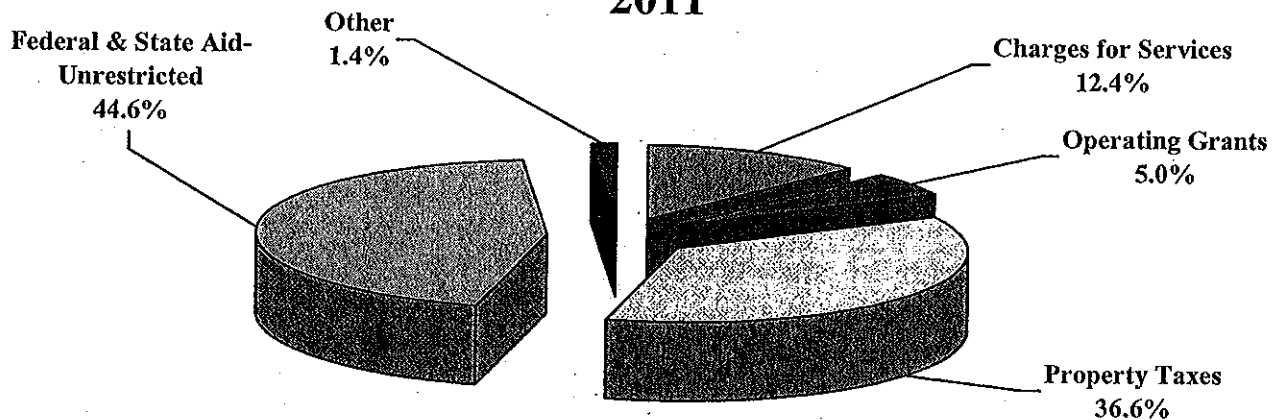
Table 2 presents a condensed version of the change in net assets of the District.

**Table 2**  
**Change in Net Assets**  
**For the year ended June 30, 2011**

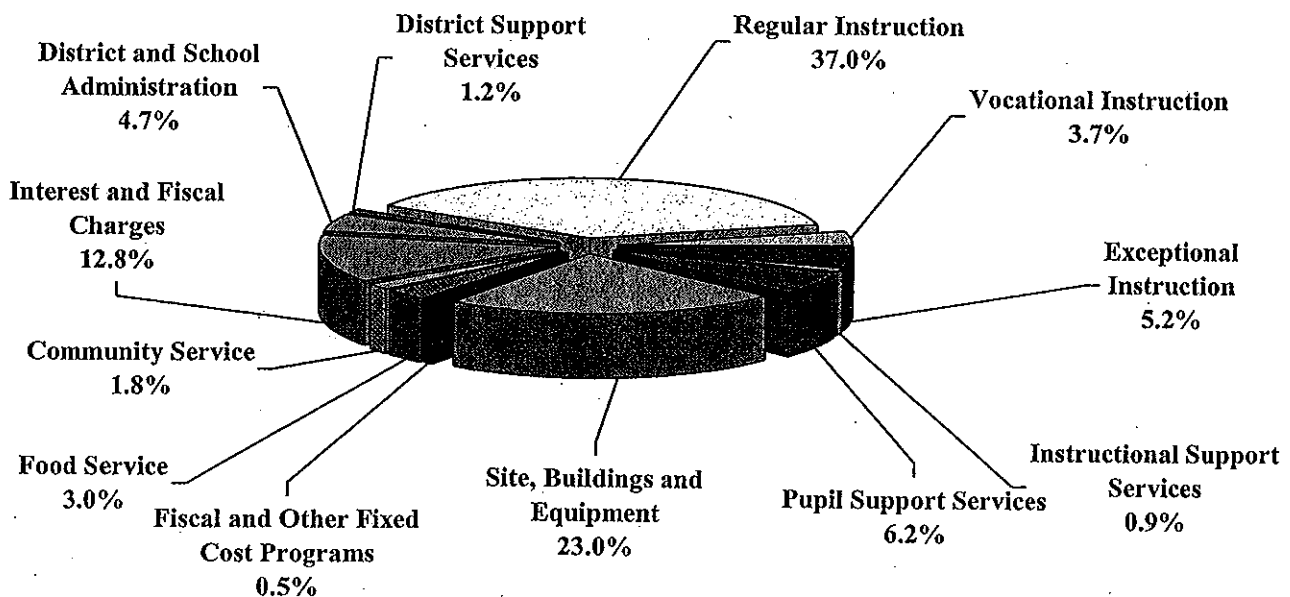
	<u>2011</u>	<u>2010</u>
<b><u>Revenues</u></b>		
Program Revenues		
Charges for Services	370,392	396,223
Operating Grants and Contributions	149,415	184,189
General Revenues		
Property Taxes	1,098,615	835,938
Unrestricted Federal and State Aid	1,338,639	1,575,350
Other	<u>41,190</u>	<u>97,394</u>
<b>Total revenues</b>	<b>2,998,251</b>	<b>3,089,094</b>
<b><u>Expenses</u></b>		
District and School Administration	140,390	165,027
District Support Services	35,047	49,503
Regular Instruction	1,105,961	1,163,886
Vocational Instruction	111,759	113,123
Exceptional Instruction	154,247	148,570
Instructional Support Services	27,778	16,479
Pupil Support Services	185,966	194,040
Site, Buildings, and Equipment	689,694	629,305
Fiscal and Other Fixed Cost Programs	14,753	15,506
Food Service	89,734	93,813
Community Service	52,496	25,281
Interest and Fiscal Charges on		
Long-term Liabilities	<u>381,473</u>	<u>388,523</u>
<b>Total expenses</b>	<b><u>2,989,298</u></b>	<b><u>3,003,056</u></b>
<b>Change in net assets</b>	<b><u>8,953</u></b>	<b><u>86,038</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 2011**



**Figure B - Expenses for Fiscal Year 2011**



### **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 2011, the District revised the budget for various reasons. None of the revisions were considered significant.

For fiscal year 2011, revenues were over budget by \$22,639 and expenditures were under budget by \$125,777.

#### **Capital Assets**

Additions for the fiscal year of \$63,309 include the completion of construction in progress.

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, 2011.

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

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	10,093,594	7,917	10,085,677
Buildings and Improvements	1,038,800	1,177,222	(138,422)
Equipment	322,278	345,817	(23,539)
Construction in Process	-0-	10,154,827	(10,154,827)
Less: Accumulated Depreciation	<u>(1,231,421)</u>	<u>(1,030,539)</u>	<u>(200,883)</u>
Total	<u>10,232,945</u>	<u>10,664,935</u>	<u>(431,994)</u>
Depreciation Expense	<u>279,761</u>	<u>23,957</u>	<u>255,804</u>

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

In fiscal year 2011 the District had General Obligation School Building Bonds of 2008 with an outstanding balance of \$9,470,000. Severance liability decreased by \$39,627 and the net OPEB liability decreased by \$25,227.

#### **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.

#### **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, 2011**

<u>Assets</u>	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and Investments	1,274,586	820,538
Receivables:		
Property Taxes	517,583	456,461
Governmental Units	554,954	519,631
Other	61	333
Inventory	2,054	2,520
Prepaid Items	923	
Capital Assets:		
Non-Depreciable	9,694	9,694
Construction in Process		10,154,827
Depreciable - net of accumulated depreciation	10,223,231	500,414
<b>Total Assets</b>	<u>12,583,086</u>	<u>12,464,418</u>
 <b>Liabilities</b>		
Accounts Payable	9,503	37,681
Salaries Payable	67,494	75,294
Due to Other Governmental Units	140,466	97,667
Payroll Deductions	41,581	85,890
Deferred Revenue	6,005	1,300
Property Taxes Levied for Subsequent Year	881,544	946,460
Short Term Indebtedness	598,108	80,840
Long-term Liabilities:		
Portion Due Within One Year	311,269	317,546
Portion Due in More Than One Year	9,329,110	9,632,687
<b>Total Liabilities</b>	<u>11,385,080</u>	<u>11,275,365</u>
 <b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	762,925	949,935
Restricted for:		
General Fund State Mandated Purposes	247,701	(131,863)
Food Service	6,479	3,243
Community Service	52,496	25,571
Debt Service	74,895	37,154
Unrestricted	53,510	305,013
<b>Total Net Assets</b>	<u>1,198,006</u>	<u>1,189,053</u>
<b>Total Liabilities and Net Assets</b>	<u>12,583,086</u>	<u>12,464,418</u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b><u>Functions</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>			<b><u>Net (Expense) Revenue and Changes in Net Assets</u></b>	
		<b><u>Charges For Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	<b><u>Total Government Activities</u></b>	
					<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Governmental Activities</b>						
District and School Administration	140,390				(140,390)	(165,027)
District Support Services	35,047				(35,047)	(49,503)
Regular Instruction	1,105,961	298,116	59,519		(748,326)	(753,433)
Vocational Instruction	111,759				(111,759)	(112,248)
Exceptional Instruction	154,247		56,371		(97,876)	(96,324)
Instructional Support Services	27,778				(27,778)	(16,479)
Pupil Support Services	185,966				(185,966)	(194,040)
Site, Buildings and Equipment	689,694				(689,694)	(616,188)
Fiscal and Other Fixed Cost Programs	14,753				(14,753)	(15,506)
Food Service	89,734	55,876	31,954		(1,904)	(12,451)
Community Service	52,496	16,400	1,571		(34,525)	(1,852)
<b>Interest and Fiscal Charges on Long-term Liabilities</b>	<b>381,473</b>				<b>(381,473)</b>	<b>(388,523)</b>
<b>Total</b>	<b><u>2,989,298</u></b>	<b><u>370,392</u></b>	<b><u>149,415</u></b>	<b><u>-0-</u></b>	<b><u>(2,469,491)</u></b>	<b><u>(2,421,574)</u></b>
<b><u>General Revenues</u></b>						
Property Taxes Levied for:						
General Purposes					464,716	220,099
Community Service					22,877	19,041
Debt Service					611,022	596,798
Federal and State Aid Not Restricted to Specific Purposes					1,338,639	1,575,350
Earnings on Investments					525	18,077
Miscellaneous					40,665	78,247
<b>Total General Revenues</b>					<b><u>2,478,444</u></b>	<b><u>2,507,612</u></b>
<b>Change in Net Assets</b>					<b>8,953</b>	<b>86,038</b>
<b>Net Assets - Beginning</b>					<b><u>1,189,053</u></b>	<b><u>1,103,015</u></b>
<b>Net Assets - Ending</b>					<b><u>1,198,006</u></b>	<b><u>1,189,053</u></b>

See accompanying notes to the financial statements.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

<u>Assets</u>	<u>Major Funds</u>				<u>Total Governmental Funds</u>	
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Debt Service</u>	<u>2011</u>	<u>2010</u>
Cash	69,529	4,405	41,447	398,273	513,654	820,538
Investments	758,217			2,715	760,932	
Current Property Taxes Receivable	183,554		9,536	320,041	513,131	453,008
Delinquent Property Taxes Receivable	1,713		421	2,318	4,452	3,453
Accounts Receivable	41	20			61	
Interest Receivable						333
Due From Other Minnesota Districts	89,397				89,397	112,642
Due From Department of Education	440,308		1,092	13,973	455,373	394,002
Due From Federal Government	10,184				10,184	12,987
Inventory		2,054			2,054	2,520
Prepaid Items	923				923	
<b>Total Assets</b>	<b>1,553,866</b>	<b>6,479</b>	<b>52,496</b>	<b>737,320</b>	<b>2,350,161</b>	<b>1,799,483</b>
<b><u>Liabilities and Fund Equity</u></b>						
<b><u>Liabilities</u></b>						
Accounts Payable	8,970		533		9,503	37,681
Interest Payable	9,882				9,882	521
Salaries Payable	61,644	5,137	713		67,494	75,294
Short Term Indebtedness	588,226				588,226	80,319
Due to Other Governmental Units	280				280	402
Due to Other Minnesota School Districts	119,599		20,587		140,186	97,265
Payroll Deductions	41,581				41,581	85,890
Deferred Revenue-Other			6,005		6,005	1,300
Deferred Revenue-Delinquent Taxes	1,713		421	2,318	4,452	3,453
Property Taxes Levied for Subsequent Years	211,325		10,112	660,107	881,544	946,460
<b>Total Liabilities</b>	<b>1,043,220</b>	<b>5,137</b>	<b>38,371</b>	<b>662,425</b>	<b>1,749,153</b>	<b>1,328,585</b>
<b><u>Fund Equity</u></b>						
Fund Balance-Nonspendable	923	2,054			2,977	2,520
Fund Balance-Restricted	62,705		25,734	74,895	163,334	177,129
Fund Balance-Committed	184,073				184,073	206,170
Fund Balance-Unassigned	262,945	(712)	(11,609)		250,624	85,079
<b>Total Fund Equity</b>	<b>510,646</b>	<b>1,342</b>	<b>14,125</b>	<b>74,895</b>	<b>601,008</b>	<b>470,898</b>
<b>Total Liabilities and Equity</b>	<b>1,553,866</b>	<b>6,479</b>	<b>52,496</b>	<b>737,320</b>	<b>2,350,161</b>	<b>1,799,483</b>

See accompanying notes to the financial statements.

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>
Total Governmental Fund Balances	601,008	470,898
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	11,464,366	11,695,474
Less: Accumulated Depreciation	<u>(1,231,441)</u>	<u>(1,030,539)</u>
	10,232,925	10,664,935
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.		
	4,452	3,453
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	(9,470,000)	(9,715,000)
Severance Payable	(184,073)	(223,700)
Net OPEB Liability	<u>13,694</u>	<u>(11,533)</u>
	(9,640,379)	(9,950,233)
Net Assets of Governmental Activities	<u><u>1,198,006</u></u>	<u><u>1,189,053</u></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, 2011**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2011	2010
<b>Revenues</b>						
Local Property Tax Levies	463,717		22,877	611,022	1,097,616	836,285
Other Local and County Revenues	325,355	3	16,602	6,616	348,576	427,971
Revenue from State Sources	1,286,694	4,371	1,571	46,576	1,339,212	1,529,247
Revenue from Federal Sources	121,259	27,583			148,842	230,292
Other	4,767	55,876			60,643	53,767
Total Revenues	2,201,792	87,833	41,050	664,214	2,994,889	3,077,562
<b>Expenditures</b>						
District and School Administration	140,390				140,390	165,027
District Support Services	35,047				35,047	49,503
Regular Instruction	1,178,424				1,178,424	1,160,910
Vocational Instruction	111,599				111,599	112,088
Exceptional Instruction	154,247				154,247	148,570
Community Education and Services			52,496		52,496	25,281
Instructional Support Services	27,778				27,778	16,479
Pupil Support Services	185,178	89,734			274,912	287,065
Site, Buildings and Equipment	251,023				251,023	8,991,275
Fiscal and Other Fixed Cost Programs	14,753			626,473	641,226	639,029
Total Expenditures	2,098,439	89,734	52,496	626,473	2,867,142	11,595,227
Excess Revenues (Expenditures)	103,353	(1,901)	(11,446)	37,741	127,747	(8,517,665)
<b>Other Financing Sources (Uses)</b>						
Sale of Equipment	2,363				2,363	10,809
Total Other Financing Sources (Uses)	2,363	-0-	-0-	-0-	2,363	10,809
Net Change in Fund Balance	105,716	(1,901)	(11,446)	37,741	130,110	(8,506,856)
Fund Balance-Beginning	404,930	3,243	25,571	37,154	470,898	8,977,754
Fund Balance-Ending	510,646	1,342	14,125	74,895	601,008	470,898

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, 2011**

	<u>2011</u>	<u>2010</u>
Net Change in Governmental Fund Balances	130,110	(8,506,856)

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	63,309		170,513	
Construction in Process	-0-		8,235,202	
Disposal of Assets	(215,558)		(22,278)	
Depreciation Expense	<u>(279,761)</u>	(432,010)	<u>(23,957)</u>	8,359,480

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 Payments	245,000		235,000	
Severance	<u>39,627</u>	284,627	<u>10,294</u>	245,294

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.

999	(347)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in OPEB liability	25,227	(11,533)
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Change in Net Assets of Governmental Activities	<u><u>8,953</u></u>	<u><u>86,038</u></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, 2011**

	<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	288,498	288,498	463,717	175,219
Other Local and County Revenues	325,525	325,525	325,355	(170)
Revenue from State Sources	1,439,475	1,439,475	1,286,694	(152,781)
Revenue from Federal Sources	119,655	119,655	121,259	1,604
Other	8,500	6,000	4,767	(1,233)
Total Revenues	2,181,653	2,179,153	2,201,792	22,639
<b><u>Expenditures</u></b>				
District and School Administration	172,936	172,936	140,390	(32,546)
District Support Services	37,980	37,980	35,047	(2,933)
Regular Instruction	1,188,912	1,188,912	1,178,424	(10,488)
Vocational Instruction	120,866	120,866	111,599	(9,267)
Exceptional Instruction	133,466	133,466	154,247	20,781
Instructional Support Services	20,350	20,350	27,778	7,428
Pupil Support Services	216,801	216,801	185,178	(31,623)
Site, Building and Equipment	313,905	313,905	251,023	(62,882)
Fiscal and Other Fixed Cost Programs	19,000	19,000	14,753	(4,247)
Total Expenditures	2,224,216	2,224,216	2,098,439	(125,777)
Excess Revenues (Expenditures)	(42,563)	(45,063)	103,353	148,416
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Equipment	2,500	2,500	2,363	(137)
Total Other Financing Sources (Uses)	2,500	2,500	2,363	(137)
Net Change in Fund Balance	(42,563)	(42,563)	105,716	(103,275)
Fund Balance-Beginning			404,930	
Fund Balance-Ending			510,646	

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, 2011**

	<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	280	280	3	(277)
Revenue from State Sources	5,450	4,100	4,371	271
Revenue from Federal Sources	31,125	28,600	27,583	(1,017)
Other	50,225	52,425	55,876	3,451
Total Revenues	87,080	85,405	87,833	2,428
<b><u>Expenditures</u></b>				
Pupil Support Services	95,780	91,007	89,734	1,273
Total Expenditures	95,780	91,007	89,734	1,273
Net Change in Fund Balance	<u>(8,700)</u>	<u>(5,602)</u>	(1,901)	<u>3,701</u>
Fund Balance-Beginning			3,243	
Fund Balance-Ending			<u>1,342</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, 2011**

	<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	17,490	17,490	22,877	5,387
Other Local and County Revenues	8,450	8,450	16,602	8,152
Revenue from State Sources	14,553	14,553	1,571	(12,982)
Total Revenues	40,493	40,493	41,050	557
<b><u>Expenditures</u></b>				
Community Education and Services	33,405	33,405	52,496	(19,091)
Total Expenditures	33,405	33,405	52,496	(19,091)
Net Change in Fund Balance	7,088	7,088	(11,446)	(18,534)
Fund Balance-Beginning			25,571	
Fund Balance-Ending			14,125	

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, 2011**

	<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	610,859	610,859	611,022	163
Other Local and County Revenues	7,100	7,100	6,616	(484)
Revenue from State Sources	46,576	46,576	46,576	0
Total Revenues	664,535	664,535	664,214	(321)
<b><u>Expenditures</u></b>				
Fiscal and Other Fixed Cost Programs	626,023	626,023	626,473	(450)
Total Expenditures	626,023	626,023	626,473	(450)
Net Change in Fund Balance	38,512	38,512	37,741	(771)
Fund Balance-Beginning			37,154	
Fund Balance-Ending			74,895	

See accompanying notes to the financial statements.

**STATEMENT OF FIDUCIARY ASSETS**  
**EXPENDABLE TRUST FUND**  
**JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>
<b><u>Assets</u></b>		
Cash and Investments	<u>4,713</u>	<u>4,902</u>
<b>Total Assets</b>	<u><u>4,713</u></u>	<u><u>4,902</u></u>
<b><u>Net Assets</u></b>		
Reserved for Scholarships	<u>4,713</u>	<u>4,902</u>
<b>Total Net Assets</b>	<u><u>4,713</u></u>	<u><u>4,902</u></u>

See accompanying notes to the financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**EXPENDABLE TRUST FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b><u>Additions</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Interest Income	<u>11</u>	<u>26</u>
Total Additions	<u>11</u>	<u>26</u>
 <b><u>Deductions</u></b>		
Scholarships	<u>200</u>	<u>200</u>
Change in Net Assets	<u>(189)</u>	<u>(174)</u>
 Net Assets - Beginning of Year	<u>4,902</u>	<u>5,076</u>
Net Assets - End of Year	<u><u>4,713</u></u>	<u><u>4,902</u></u>

See accompanying notes to the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011**

**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, 2011**

**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, 2011**

**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, 2011**

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

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

**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, 2011**

**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, 2011**

**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, 2011, and will be recognized as revenue during the fiscal year ending June 30, 2012. 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, 2011**

**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, 2010, from which the summarized information was derived.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

**Q.      Subsequent Events**

Subsequent events have been evaluated through December 5, 2011, which is the date the financial statements were available to be issued.

**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, 2011, none of the District's bank balance of \$527,785 was exposed to custodial credit risk.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011**

**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</u>	<u>Interest</u>	<u>Carrying</u>
	<u>Credit</u>	<u>Rating</u>	<u>Risk</u>	<u>Rate Risk</u>	
	<u>Rating</u>	<u>Agency</u>	<u>Over 5%</u>	<u>Maturity</u>	<u>Value</u>
			<u>of Portfolio</u>	<u>Date</u>	
Investment Pools					
Minnesota School					
District Liquid					
Asset Fund Plus					
Liquid Class	AAAm	S & P	12%	N/A	89,148
Minnesota School					
District Liquid					
Asset Fund Plus					
MAX Class	AAAm	S & P	88%	N/A	671,785
Total Investments					760,932
Nonnegotiable					
Certificates of					
Deposit					3,389
Deposits					514,233
Total Cash and					
Investments					1,279,299

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

Cash and temporary investments -- statement of net assets	1,274,586
Cash and temporary investments -- statement of fiduciary net assets	4,713
	<u>1,279,299</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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>2011</u></b>	<b><u>2010</u></b>
Independent School District No. 402		
Hendricks – Reimbursable Expenses	89,266	103,088
Independent School District No. 891		
Canby – Reimbursable Expenses	131	
SW/WC Coop – Montevideo		
Special Education Flow Thru		9,434
Total General Fund	89,397	112,522
<b><u>Special Revenue Fund</u></b>		
<b><u>Community Service Fund</u></b>		
SW/WC Coop– Reimbursable Expenses		120
Total Special Revenue Funds	-0-	120
Total All Funds	<u>89,397</u>	<u>159,077</u>

**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:

	<b><u>June 30</u></b>	
<b><u>General Fund</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
General Education Aid	427,262	361,358
Other State Credits	7,465	1,485
Special Education	5,581	11,150
Total General Fund	440,308	373,993
<b><u>Special Revenue Funds</u></b>		
<b><u>Food Service Fund</u></b>		
Lunch Aid		220
<b><u>Community Service Fund</u></b>		
Early Childhood and Family Education	194	3,034
Other State Credits	898	886
Total Community Services	1,092	3,920
Total Special Revenue Funds	1,092	4,120
<b><u>Debt Service Fund</u></b>		
Other State Credits	13,973	15,869
Total All Funds	<u>455,373</u>	<u>394,002</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 5** **Due From Federal Government Through the Department of Education**  
Amounts due from the federal government through the Department of Education are as follows:

<b><u>General Fund</u></b>	<b><u>June 30</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Federal Program - Title I	1,190	7,688
- Title II	6,815	4,846
- ARRA Stabilization		454
- ARRA Ed Jobs	2,179	
Total General Fund	<u>10,184</u>	<u>12,988</u>

**Note 5** **Capital Assets**  
Capital asset activity for the year ended June 30, 2011 was as follows:

	<b><u>Balance</u></b> <b><u>07/01/10</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Balance</u></b> <b><u>06/30/11</u></b>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	7,917	10,095,316	(9,639)	10,093,594
Buildings	1,177,222		(138,422)	1,038,800
Equipment	345,814	13,403	(36,939)	322,278
Construction In Process	10,154,827		(10,154,827)	
Total capital assets depreciated	11,685,780	10,108,719	(10,339,827)	11,454,672
Less accumulated depreciation for				
Land Improvements	(7,917)	(252,383)	7,961	(252,339)
Buildings	(870,754)	(8,835)	36,465	(843,124)
Equipment	(151,868)	(18,543)	34,433	(135,978)
Total Accumulated Depreciation	<u>(1,030,539)</u>	<u>(279,761)</u>	<u>78,858</u>	<u>(1,231,441)</u>
Total capital assets depreciated -- net	10,655,241	9,828,958	(10,260,969)	10,223,231
Net Capital Assets	<u>10,664,935</u>	<u>9,828,958</u>	<u>(10,260,969)</u>	<u>10,232,925</u>

Depreciation expense of \$279,761 for the year ended June 30, 2011 was charged to the following governmental functions:

Regular Instruction	3,288
Vocational Instruction	160
Pupil Support Services	788
Sites, Buildings, and Equipment	275,525
Total	<u>279,761</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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>2011</u></b>	<b><u>2010</u></b>
Independent School District No. 402		
Hendricks – Reimbursements	106,378	86,390
Independent School District No. 099	13,221	1,060
SW/WC Service Coop – Reimbursements		
Independent School District No. 414		
Minneota - Reimbursements		4,571
Total General Fund	119,599	92,021
<b><u>Special Revenue Fund</u></b>		
<b><u>Community Service Fund</u></b>		
Independent School District No. 402		
Hendricks – Reimbursements	20,587	5,244
Total Special Revenue Funds	20,587	5,244
Total All Funds	140,186	97,265

**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>2011</u></b>	<b><u>2010</u></b>
Minnesota Department of Revenue		
Sales Tax	280	420
Total General Fund	280	420

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 8    Long-Term Liabilities**

**A.    Bonds Payable**

Bonds payable at June 30, 2011 are comprised of the following items:

	<b><u>Balance</u></b>
	<b><u>June 30, 2011</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%.	9,470,000
Total Bonds Payable	<u>9,470,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2011, including interest payments, are listed below.

<b><u>Year Ended</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
<b><u>June 30</u></b>			
2012	255,000	373,673	628,673
2013	265,000	366,023	631,023
2014	275,000	356,748	631,748
2015	285,000	347,123	632,123
2016	300,000	337,148	637,148
2017-2021	1,680,000	1,510,638	3,190,638
2022-2026	2,050,000	1,147,788	3,197,788
2027-2031	2,540,000	699,248	3,239,248
2032-2036	<u>1,820,000</u>	<u>153,343</u>	<u>1,973,343</u>
Total	<u>9,470,000</u>	<u>5,291,732</u>	<u>14,761,732</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>Balance</u></b>	<b><u>Due Within</u></b>
	<b><u>7/01/10</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>6/30/11</u></b>	<b><u>One Year</u></b>
Bonds Payable	9,715,000		245,000	9,470,000	255,000
Net OPEB Liability	11,533	11,632	36,859	(13,694)	
Severance Pay	<u>223,700</u>		<u>39,627</u>	<u>184,073</u>	<u>56,269</u>
Total	<u>9,950,233</u>	<u>11,632</u>	<u>321,486</u>	<u>9,640,379</u>	<u>311,269</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 9      Fund Balances**

Beginning with fiscal year 2011, the District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

During fiscal year 2011, the District adopted a fund balance policy to create new fund balance classifications according to GASB 54. The District will strive to maintain a minimum unassigned general fund balance of 20 percent of the annual budget (12 months of operating expenses). If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

The following are the fund balance categories used by the District:

**Non-Spendable Fund Balance**

Fund balance amounts that are not in a spendable form (such as inventory or prepaid items) or are legally or contractually required to be maintained intact. The District has the following non-spendable fund balances as of June 30, 2011:

**General Fund**

Prepaid Expenses	<u>923</u>
Total General Fund	923

**Special Revenue Funds**

**Food Service**

Inventory	<u>2,054</u>
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Total Special Revenue Funds      2,054

Total All Funds      2,977

**Restricted Fund Balance**

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 9    Fund Balances – continued**

**Restricted Fund Balance – continued**

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2011:

**General Fund**

Deferred Maintenance	1,874
Health & Safety	(158,869)
Operating Capital	57,854
Gifted & Talented	2,978
Safe Schools	(18,708)
UFARS Balance	(114,872)
GASB 54 Elimination of Negative Restricted Balances	177,577
Total General Fund	62,705

**Special Revenue Funds**

**Community Services**

Community Education	8,613
Early Childhood and Family Education	17,121
School Readiness	(11,036)
UFARS Balance	14,698
GASB 54 Elimination of Negative Restricted Balances	11,036
Total Special Revenue Funds	25,734

**Debt Service**

Restricted	74,895
Total Debt Service Fund	74,895
Total All Funds	163,334

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 9    Fund Balances – continued**

**Committed Fund Balance**

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has the following committed fund balances as of June 30, 2011.

**General Fund**

Separation	<u>184,073</u>
Total General Fund	<u>184,073</u>
Total All Funds	<u>184,073</u>

**Assigned Fund Balance**

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintended. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2011.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 9     Fund Balances – continued**

**Unassigned Fund Balance**

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2011:

**General Fund**

UFARS Balance	440,521
GASB 54 Elimination of Negative Restricted Balances	(177,576)
Total General Fund	<u>262,945</u>

**Special Revenue Funds**

**Food Service**

UFARS Balance	(712)
Total General Fund	<u>(713)</u>

**Community Service**

UFARS Balance	(571)
GASB 54 Elimination of Negative Restricted Balances	(11,038)
Total Community Service Fund	<u>(11,609)</u>
Total Special Revenue Funds	<u>(12,321)</u>

Total All Funds	<u>325,519</u>
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**Stabilization Amounts**

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2011.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 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	2.2 percent per year
	All years 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, 2011**

**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 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, 2011**

**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 55103-4000  
(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. 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. The TRA employer contribution rates are 5.5 percent for Coordinated members and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2010 was approximately \$3.79 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2009 and June 30, 2008 were \$3.76 billion and \$3.65 billion, respectively.

The District's contributions for the years ending June 30, 2011, 2010 and 2009, were \$35,983, \$38,801, and \$39,299, respectively, equal to the required contributions for each year as set by state statute.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011**

**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, 2011**

**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 were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.0% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010; and 2009, were \$11,065, \$13,699, and \$12,337 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**C.    Other Postemployment Benefits (OPEB)**

Beginning in fiscal year 2011, the District implemented Governmental Accounting Standards Board (GASB), Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

This statement required the District to calculate and record a net other postemployment benefit obligation (NOPEBO) at June 30, 2010. The (NOPEBO) is, in general, the cumulative difference between the actuarial required contribution and the actual contributions.

**Plan Description**

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The District provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 10    Pension Plan – continued**

**C.    Other Postemployment Benefits (OPEB) – continued**

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. For fiscal year 2011, there were approximately 31 participants in the plan, including 5 retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual Required Contribution	11,533
Interest on net OPEB obligation	(296)
Adjustment to Annual Required Contribution	<u>396</u>
Annual OPEB cost (expense)	11,632
Contributions made	<u>(36,859)</u>
Increase in net OPEB obligation	(25,227)
Net OPEB Obligation – Beginning of Year	<u>11,533</u>
Net OPEB Obligation – End of Year	(13,694)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2010 and 2011, were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2010	11,533	14,034	121.7%	(2,501)
June 30, 2011	11,632	36,859	316.9%	(13,694)

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 10    Pension Plan – continued**

**C.    Other Postemployment Benefits (OPEB) – continued**

**Fund Status and Funding Progress**

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$114,215, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$114,215. The covered payroll (annual payroll of active employees covered by the plan) was \$758,059, and the ratio of the UAAL to the covered payroll was 15.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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

In the July 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of investment expenses), which is the District's implicit rate of return on the General Fund. The annual healthcare cost trend is 9.0% initially reduced by decrements to an ultimate rate of 5.0% over eight years. Both rates included a 3.0% inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at June 30, 2010, was 29 years.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

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, 2011:

Community Service Fund	19,091
Debt Service Fund	450

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 13    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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 14    Restatement of Prior Period**

Due to the implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011, the fund balances for fiscal year 2010 have been retroactively restated.

	<b><u>Pre GASB 54</u></b>	<b><u>Post GASB 54</u></b>
<b><u>General Fund</u></b>		
Fund Balance – Reserved	74,307	
Fund Balance – Unreserved – Designated		
Fund Balance – Unreserved	330,623	
Fund Balance – Non-Spendable		
Fund Balance – Restricted		111,011
Fund Balance – Committed		206,170
Fund Balance – Unassigned		87,749
Total General Fund	404,930	404,930
<b><u>Special Revenue Funds</u></b>		
<b><u>Food Service Fund</u></b>		
Fund Balance – Unreserved	3,243	
Fund Balance – Non-Spendable		2,520
Fund Balance – Unassigned		723
Total Food Service Fund	3,243	3,243
<b><u>Community Service Fund</u></b>		
Fund Balance – Reserved	26,144	
Fund Balance – Unreserved	(573)	
Fund Balance – Restricted		28,964
Fund Balance – Unassigned		(3,393)
Total Community Service Fund	25,571	25,571
Total Special Revenue Funds	28,814	28,814
<b><u>Debt Service Fund</u></b>		
Fund Balance – Reserved	37,154	
Fund Balance – Restricted		37,154
Total Debt Service Fund	37,154	37,154
Total All Funds	470,898	470,898

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS**  
**JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	-0-	114,215	114,215	0.0%	758,059	15.1%

See Note 10, Other Postemployment Benefits, for more information

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in fiscal year 2010. Future notes will provide additional trend analysis to meet the three actuarial valuation requirement as the information becomes available.

**GENERAL FUND**  
**BALANCE SHEET**  
**JUNE 30, 2011**

<b><u>Assets</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Cash	69,529	163,077
Investments	758,217	250,325
Current Property Taxes Receivable	183,554	128,330
Delinquent Property Taxes Receivable	1,713	1,441
Accounts Receivable	41	
Prepays	923	
Interest Receivable		333
Due From Other Minnesota Districts	89,397	112,522
Due From Department of Education	440,308	373,993
Due From Federal Government	10,184	12,987
Total Assets	<u>1,553,866</u>	<u>1,043,008</u>
 <b><u>Liabilities and Fund Equity</u></b>		
<b><u>Liabilities</u></b>		
Salaries Payable	61,644	69,227
Accounts Payable	8,970	37,182
Short Term Indebtedness	588,226	80,319
Interest Payable	9,882	521
Due to Other Governmental Units	280	402
Due to Other Minnesota School Districts	119,599	92,021
Payroll Deductions	41,581	85,890
Deferred Revenue-Delinquent Taxes	1,713	1,441
Property Taxes Levied for Subsequent Years	<u>211,325</u>	<u>271,075</u>
Total Liabilities	<u>1,043,220</u>	<u>638,078</u>
 <b><u>Fund Equity</u></b>		
Fund Balance-Nonspendable	923	
Fund Balance-Restricted	62,705	111,011
Fund Balance-Committed	184,073	206,170
Fund Balance-Unassigned	<u>262,945</u>	<u>87,749</u>
Total Fund Equity	<u>510,646</u>	<u>404,930</u>
Total Liabilities and Equity	<u>1,553,866</u>	<u>1,043,008</u>



**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			
	2011			2010
	Budget	Actual	Over/(Under)	
Revenues			Budget	Actual
Local Property Tax Levy				
Local Tax Levy	288,498	288,603	105	221,991
Local Property Tax Shift		175,114	175,114	
	288,498	463,717	175,219	221,991
Other Local and County Revenues				
County Apportionment	7,000	6,849	(151)	7,124
Admissions	27,125	28,696	1,571	30,748
Gifts				25,000
Interest Income	5,000	400	(4,600)	1,453
Rent of Facilities	100	2,551	2,451	2,708
Other Revenues	16,700	17,439	739	18,867
Tuition from Other Minnesota Districts	269,600	269,420	(180)	306,664
Total Other Local and County Revenues	325,525	325,355	(170)	392,564
Revenue From State Sources				
Disparity Reduction Aid	1,328	1,327	(4,195)	801
Endowment Fund Apportionment	5,522	5,384	4,056	5,270
General Education Aid	1,399,147	1,406,845	7,698	1,394,066
Market Value Credit	8,465	8,464	(1)	4,684
Other State Aids	13	109	96	618
Property Tax Shift Offset		(175,114)	(175,114)	
Special Education	25,000	39,679	14,679	46,404
Total Revenue From State Sources	1,439,475	1,286,694	(152,781)	1,451,843
Revenue From Federal Sources				
Federal Aid Programs	119,655	121,259	1,604	202,943
Sales and Other Conversion of Assets				
Insurance Recovery				2,748
Sale of Materials	6,000	4,767	(1,233)	3,864
Total Sales and Other Conversion of Assets	6,000	4,767	(1,233)	6,612
Total Revenues	2,179,153	2,201,792	22,639	2,275,953

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			
	2011		2,010	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u>	<u>Actual</u>
<u>District and School Administration</u>				
Dues and Memberships	5,650	7,046	1,396	5,606
Equipment Leased				1,000
Fixed Charges and Employee Benefits	24,518	17,146	(7,372)	17,403
Professional Services	7,500	6,489	(1,011)	4,864
Salaries	125,943	102,370	(23,573)	121,512
Supplies	525	1,054	529	2,426
Travel and Transportation	8,300	5,708	(2,592)	11,734
Utilities	500	577	77	482
Total District and School Administration	172,936	140,390	(32,546)	165,027
<u>District Support</u>				
Dues and Memberships	5,500	3,277	(2,223)	4,995
Equipment Leased	780	732	(48)	732
Fixed Charges and Employee Benefits				14,006
Pairing/Sharing Chargebacks				(32,169)
Professional Services	30,200	30,193	(7)	10,644
Repairs and Maintenance				38
Salaries				49,392
Supplies	1,000	785	(215)	1,107
Travel and Transportation	500	60	(440)	758
Total District Support Services	37,980	35,047	(2,933)	49,503
<u>Regular Instruction</u>				
<u>Elementary School</u>				
Fixed Charges and Employee Benefits	30,562	30,804	242	29,979
Pairing/Sharing Chargebacks	(129,197)	(129,054)	143	(151,679)
Salaries	141,799	147,741	5,942	139,230
Travel and Transportation		282	282	
Tuition to Other Minnesota School Districts	355,800	363,823	8,023	352,533
Total Elementary	398,964	413,596	14,632	370,063

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			2010
	2011		Over/(Under)	
	Budget	Actual	Budget	Actual
<b><u>Expenditures - continued</u></b>				
<b><u>Regular Instruction - continued</u></b>				
<b><u>Secondary School</u></b>				
Dues and Memberships	2,230	2,301	71	2,281
Equipment	55,800	44,343	(11,457)	31,364
Equipment Leased				150
Fixed Charges and Employee Benefits	138,247	121,288	(16,959)	138,099
Instructional Supplies	42,762	36,951	(5,811)	21,640
Pairing/Sharing Chargebacks	27,910	30,388	2,478	27,682
Professional Services	47,250	35,859	(11,391)	45,368
Repairs and Maintenance	5,750	3,634	(2,116)	2,600
Salaries	394,900	371,335	(23,565)	441,954
Supplies	28,235	26,683	(1,552)	18,455
Travel and Transportation	34,454	74,343	39,889	51,518
Tuition to Other Minnesota School Districts	12,410	17,703	5,293	9,736
Total Secondary	<u>789,948</u>	<u>764,828</u>	<u>(25,120)</u>	<u>790,847</u>
Total Regular Instruction	<u>1,188,912</u>	<u>1,178,424</u>	<u>(10,488)</u>	<u>1,160,910</u>
<b><u>Vocational Instruction</u></b>				
Professional Services	250	204	(46)	104
Equipment				1,421
Fixed Charges and Employee Benefits	29,351	23,513	(5,838)	23,867
Instructional Supplies	13,800	10,149	(3,651)	13,522
Repair and Maintenance		1,284	1,284	
Salaries	76,465	76,149	(316)	72,665
Travel and Transportation	<u>1,000</u>	<u>300</u>	<u>(700)</u>	<u>509</u>
Total Vocational Instruction	<u>120,866</u>	<u>111,599</u>	<u>(9,267)</u>	<u>112,088</u>
<b><u>Exceptional Instruction</u></b>				
Equipment	1,575	1,573	(2)	
Fixed Charges and Employee Benefits	31,234	29,477	(1,757)	37,772
Instructional Supplies	220	199	(21)	811
Salaries	86,757	89,490	2,733	103,738
Travel and Transportation	1,400	1,302	(98)	1,930
Tuition to Other Minnesota School Districts	12,280	12,340	60	4,319
Tuition to Out of State School Districts		19,866	19,866	
Total Exceptional Instruction	<u>133,466</u>	<u>154,247</u>	<u>20,781</u>	<u>148,570</u>
<b><u>Instructional Support Services</u></b>				
Fixed Charges and Employee Benefits	1,595	1,286	(309)	1,484
Instructional Supplies	740	837	97	210
Professional Services	7,500	18,344	10,844	4,085
Salaries	4,493	4,503	10	4,381
Supplies	1,070	698	(372)	1,380
Travel and Transportation	<u>4,952</u>	<u>2,110</u>	<u>(2,842)</u>	<u>4,939</u>
Total Instructional Support	<u>20,350</u>	<u>27,778</u>	<u>7,428</u>	<u>16,479</u>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			
	2011		2010	
	Budget	Actual	Over/(Under)	Actual
<b><u>Expenditures - continued</u></b>				
<b><u>Pupil Support</u></b>				
Fixed Charges and Employee Benefits	7,390	9,266	1,876	15,604
Fuel	32,276	39,271	6,995	22,479
Insurance	1,050	1,021	(29)	
Professional Services	1,350	2,040	690	1,687
Pupil Transportation	160,442	159,473	(969)	152,162
Salaries	12,087	18,596	6,509	28,514
Supplies	800	17	(783)	510
Transportation Chargebacks	(40,500)	(87,881)	(47,381)	(58,576)
Tuition to Other Minnesota School Districts		849	849	
Travel and Transportation	41,906	42,526	620	30,872
Total Pupil Support	216,801	185,178	(31,623)	193,252
<b><u>Site, Building and Equipment</u></b>				
Building Chargebacks		4,750	4,750	
Building Improvements	115,000	37,772	(77,228)	299,594
Capital Lease Principal				755
Dues	50		(50)	41
Equipment	7,500	162	(7,338)	129,727
Fixed Charges and Employee Benefits	23,580	21,344	(2,236)	25,008
Fuel	2,000	2,489	489	1,838
Other	40	40		30
Professional Services	12,950	20,626	7,676	95,262
Repair and Maintenance Service	24,210	29,116	4,906	44,718
Salaries	52,000	51,507	(493)	65,785
Supplies	1,800	2,903	1,103	14,426
Travel and Transportation	875	75	(800)	800
Utilities	73,900	80,239	6,339	78,089
Total Site, Building and Equipment	313,905	251,023	(62,882)	756,073
<b><u>Fixed Cost Programs</u></b>				
Interest	5,000	4,884	(116)	1,544
Property Insurance	14,000	9,869	(4,131)	13,962
Total Fixed Cost Programs	19,000	14,753	(4,247)	15,506
Total Expenditures	2,224,216	2,098,439	(125,777)	2,617,408
Excess Revenues (Expenditures)	(45,063)	103,353	148,416	(341,455)
<b><u>Other Financing Sources</u></b>				
Sale of Equipment	2,500	2,363	(137)	10,809
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	(42,563)	105,716	148,279	(330,646)
Fund Balance-July 1		404,930		735,576
Fund Balance-June 30		510,646		404,930

**ALL SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2011**

	Food	Community	Total (Memo Only)	
<u>Assets</u>	<u>Service</u>	<u>Service</u>	<u>2011</u>	<u>2010</u>
Cash	4,405	41,447	45,852	44,529
Current Property Taxes Receivable		9,536	9,536	8,676
Delinquent Property Taxes Receivable		421	421	424
Accounts Receivable	20		20	
Due from Other Minnesota Districts				120
Due from Department of Education		1,092	1,092	4,140
Inventory	2,054		2,054	2,520
<b>Total Assets</b>	<b><u>6,479</u></b>	<b><u>52,496</u></b>	<b><u>58,975</u></b>	<b><u>60,409</u></b>
 <b><u>Liabilities and Fund Equity</u></b>				
<b><u>Liabilities</u></b>				
Accounts Payable		533	533	499
Salaries Payable	5,137	713	5,850	6,067
Due to Other Minnesota Districts		20,587	20,587	5,244
Deferred Revenue - Other		6,005	6,005	1,300
Deferred Revenue - Delinquent Taxes		421	421	424
Property Taxes Levied for Subsequent Years		10,112	10,112	18,061
<b>Total Liabilities</b>	<b><u>5,137</u></b>	<b><u>38,371</u></b>	<b><u>43,508</u></b>	<b><u>31,595</u></b>
 <b><u>Fund Equity</u></b>				
Fund Balance-Restricted		25,734	25,734	28,964
Fund Balance-Nonspendable	2,054		2,054	2,520
Fund Balance-Unassigned	(712)	(11,609)	(12,321)	(2,670)
<b>Total Fund Equity</b>	<b><u>1,342</u></b>	<b><u>14,125</u></b>	<b><u>15,467</u></b>	<b><u>28,814</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>6,479</u></b>	<b><u>52,496</u></b>	<b><u>58,975</u></b>	<b><u>60,409</u></b>

**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Food Service	Community Service	Total (Memo Only) 2011	2010
<b><u>Revenues</u></b>				
Local Property Tax Levy		22,877	22,877	19,084
Other Local and County Revenues	3	16,602	16,605	9,132
Revenue from State Sources	4,371		4,371	18,631
Revenue from Federal Sources	27,583	1,571	29,154	27,349
Other	55,876		55,876	49,903
Total Revenues	87,833	41,050	128,883	124,099
<b><u>Expenditures</u></b>				
Community Education and Services		52,496	52,496	25,281
Pupil Support Services	89,734		89,734	93,813
Total Expenditures	89,734	52,496	142,230	119,094
Excess Revenues (Expenditures)	(1,901)	(11,446)	(13,347)	5,005
Fund Balance-July 1	3,243	25,571	28,814	23,809
Fund Balance-June 30	1,342	14,125	15,467	28,814

**FOOD SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			
	2011		Over/(Under)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
<b><u>Revenues</u></b>				
<b><u>Other Local and County Revenues</u></b>				
Interest Income	280	3	(277)	16
Total Local and County Revenues	280	3	(277)	16
<b><u>Revenue From State Sources</u></b>				
Lunch Reimbursement	2,400	2,413	13	2,433
Other State Aid	1,700	1,958	258	1,677
Total Revenue from State Sources	4,100	4,371	271	4,110
<b><u>Revenue From Federal Sources</u></b>				
Breakfast Reimbursement	3,200	4,399	1,199	3,184
Commodities	4,900	3,916	(984)	4,831
Lunch Reimbursement	20,500	19,268	(1,232)	19,334
Total Revenue From Federal Sources	28,600	27,583	(1,017)	27,349
<b><u>Sales and Other Conversion of Assets</u></b>				
Sale of Lunches	52,425	55,876	3,451	49,903
Total Revenues	85,405	87,833	2,428	81,378
<b><u>Expenditures</u></b>				
<b><u>Pupil Support Services</u></b>				
Commodities	4,532	3,557	975	4,227
Fixed Charges and Employee Benefits	18,840	16,071	2,769	18,677
Food	26,400	29,293	(2,893)	26,717
Milk	6,400	5,986	414	6,303
Other	635	640	(5)	710
Repairs and Maintenance	2,000	1,625	375	
Salaries	30,000	31,480	(1,480)	33,252
Supplies	2,200	1,056	1,144	3,927
Travel		26	(26)	
Total Expenditures	91,007	89,734	1,273	93,813
Excess Revenues (Expenditures)	(5,602)	(1,901)	3,701	(12,435)
Fund Balance-July 1		3,243		15,678
Fund Balance-June 30		1,342		3,243

**COMMUNITY SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			2010
	2011		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	17,490	13,315	(4,175)	19,084
Property Tax Shift		9,562	9,562	
Total Local Property Tax Levies	17,490	22,877	5,387	19,084
<u>Other Local and County Revenues</u>				
Fees from Patrons	8,000	16,400	8,400	8,908
Interest Income	300	23	(277)	38
Other	150	179	29	170
Total Other Local and County Revenues	8,450	16,602	8,152	9,116
<u>Revenue From State Sources</u>				
Disparity Aid	173	173		169
Homestead/Agriculture Credit	1,104	1,105	1	985
Other State Aids	13,276	9,855	(3,421)	13,367
Property Tax Shift		(9,562)	(9,562)	
Total Revenue From State Sources	14,553	1,571	(12,982)	14,521
Total Revenues	40,493	41,050	557	42,721
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment	500		500	168
Fixed Charges and Employee Benefits	862	966	(104)	627
Instructional Supplies	900		900	1,493
Other	2,500	1,373	1,127	5,005
Pairing/Sharing Chargebacks	18,713	38,213	(19,500)	12,914
Rent	2,500	2,476	24	
Salaries	6,430	7,851	(1,421)	5,074
Supplies	500	1,617	(1,117)	
Travel	500		500	
Total Expenditures	33,405	52,496	(19,091)	25,281
Excess Revenues (Expenditures)	7,088	(11,446)	(18,534)	17,440
Fund Balance-July 1		25,571		8,131
Fund Balance-June 30		14,125		25,571



**CAPITAL PROJECTS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			2010
	2011		Better/(Worse)	
	<u>Budget</u>	<u>Actual</u>	<u>Than Budget</u>	<u>Actual</u>
<b><u>Revenues</u></b>				
<u>Other Local and County Revenues</u>				16,383
Interest Income				16,383
Total Revenues	-0-	-0-	-0-	
<b><u>Expenditures</u></b>				
<u>Site, Building and Equipment</u>				8,118,028
Building Improvement				117,174
Equipment Purchased				8,235,202
Total Expenditures	-0-	-0-	-0-	
Excess Revenues (Expenditures)	-0-	-0-	-0-	(8,218,819)
Fund Balance-July 1		-0-		8,218,819
Fund Balance-June 30		-0-		-0-

**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Year Ended June 30			2010
	2011		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	610,859	611,022	163	595,210
<u>Other Local and County Revenues</u>				
Interest Income	200	99	(101)	187
Misc. Local Taxes	6,900	6,517	(383)	6,957
Total Other Local and County Revenues	7,100	6,616	(484)	7,144
<u>Revenue From State Sources</u>				
Disparity Aid	6,299	6,299		6,906
Market Value Credit	40,166	40,165	(1)	40,391
Other State Aid	111	112	1	11,476
Total Revenue From State Sources	46,576	46,576		58,773
Total Revenues	664,535	664,214	(321)	661,127
<u>Expenditures</u>				
Bond Interest	381,023	381,023		388,073
Bond Principal	245,000	245,000		235,000
Other Bond Expenses		450	(450)	450
Total Expenditures	626,023	626,473	(450)	623,523
Excess Revenues (Expenditures)	38,512	37,741	(771)	37,604
Fund Balance-July 1		37,154		(450)
Fund Balance-June 30		74,895		37,154

**UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Audit	UFARS	Audit - UFARS
<b><u>01 GENERAL FUND</u></b>			
Total Revenues	<u>2,201,792</u>	<u>2,201,792</u>	<u>0</u>
Total Expenditures	<u>2,098,439</u>	<u>2,098,439</u>	<u>0</u>
Non Spendable:			
4.60 Non Spendable	923	923	0
Restricted:			
4.03 Staff Development	-0-	-0-	0
4.05 Deferred Maintenance	1,873	1,874	(1)
4.06 Health and Safety	-0-	(158,869)	158,869
4.24 Operating Capital	57,854	57,854	0
4.38 Gifted & Talented	2,978	2,978	0
4.41 Basic Skills	-0-	-0-	0
4.49 Safe Schools	-0-	(18,708)	18,708
Committed:			
4.18 Designated - Severance	184,073	184,073	0
Unassigned:			
4.22 Unassigned	262,945	440,521	(177,576)
<b><u>02 FOOD SERVICE</u></b>			
Total Revenues	<u>87,833</u>	<u>87,833</u>	<u>0</u>
Total Expenditures	<u>89,734</u>	<u>89,734</u>	<u>0</u>
Non Spendable:			
4.60 Non Spendable	2,054	2,054	0
Unreserved:			
4.63 Unassigned	(712)	(713)	1
<b><u>04 COMMUNITY SERVICE</u></b>			
Total Revenues	<u>41,050</u>	<u>41,050</u>	<u>0</u>
Total Expenditures	<u>52,496</u>	<u>52,496</u>	<u>0</u>
Restricted:			
4.31 Community Education	8,613	8,613	0
4.32 Early Child & Family Education	17,121	17,121	0
4.44 School Readiness	-0-	(11,036)	11,036
Unassigned:			
4.63 Unassigned	(11,609)	(571)	(11,038)
<b><u>07 DEBT SERVICE</u></b>			
Total Revenues	<u>664,214</u>	<u>664,214</u>	<u>0</u>
Total Expenditures	<u>626,473</u>	<u>626,473</u>	<u>0</u>
Restricted:			
4.64 Restricted	74,895	74,895	0
<b><u>07 TRUST</u></b>			
Total Revenues	<u>11</u>	<u>11</u>	<u>0</u>
Total Expenditures	<u>200</u>	<u>200</u>	<u>0</u>
Unassigned:			
4.22 Unassigned	4,713	4,713	0

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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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Financial Reporting**

In planning and performing our audit, we considered Independent School District No. 403'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 Independent School District No. 403's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 403'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we have identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses: 2011-I and 2011-II.

#### 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*.

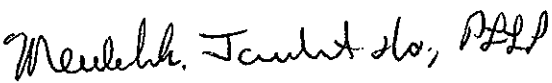
#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. 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.

The *Minnesota Legal Compliance Audit Guide for Local Governments* covers 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, 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  
Certified Public Accountants

December 5, 2011

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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, 2011. 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, 2011, and the cash balance at that date.

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

December 5, 2010

**STUDENT ACTIVITY FUND**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b><u>Organization</u></b>	<b><u>07-01-10 Balance</u></b>	<b><u>2010-11 Receipts</u></b>	<b><u>2010-11 Disbursements</u></b>	<b><u>06-30-11 Balance</u></b>
Jr. Class	6,948	10,137	9,736	7,349
Cheerleaders	68	257	325	
"L" Club Golf	30	2,053	2,083	
"L" Club	3,225	918	3,431	712
"L" Club VB	405	540	228	717
"L" Club GBB		4,239	4,239	
"L" Club Baseball	225			225
"L" Club BBB	244	310		554
General	34	5,948	2,141	3,841
Music	6,917	7,856	9,923	4,850
Art Club	2,726	3,890	3,059	3,557
SADD	200	676	65	811
Spanish	3,074	1,399	1,491	2,982
FFA	5,043	22,661	15,510	12,194
JO Volleyball	1,120			1,120
Yearbook		5,579	3,740	1,839
Jr Rebels		400	99	301
Total	<u>30,259</u>	<u>66,863</u>	<u>56,070</u>	<u>41,052</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, 2011, and have issued our report thereon dated December 5, 2011. 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. 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*  
Meulebroeck, Taubert & Co., PLLP  
Certified Public Accountants

December 5, 2011



**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**I. Financial Statement Audit-Internal Controls**

**Previously Reported Items Not Resolved**

*2011-I 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.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

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 implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

**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:**

December 31, 2011

**Plan to monitor completion of CAP:**

The Superintendent and Board of Education will monitor the internal control system.

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**I. Financial Statement Audit-Internal Controls-continued**  
**Previously Reported Items Not Resolved-continued**  
***2011-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 is the official responsible for ensuring corrective action.

**Planned Completion Date for CAP:**

December 31, 2011

**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.