

INDEPENDENT SCHOOL DISTRICT NO. 879
Delano, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

INDEPENDENT SCHOOL DISTRICT NO. 879

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INDEPENDENT SCHOOL DISTRICT NO. 879
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2011

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Peter Brasket	Chairperson	December 31, 2012
Amy Johnson	Vice Chairperson	December 31, 2012
Carolyn Milano	Clerk	December 31, 2012
Lisa Seguin	Treasurer	December 31, 2014
Sarah Baker	Director	December 31, 2012
Erika Kluge Frake	Director	December 31, 2012
Randy Durick	Director	December 31, 2012
<u>Administration</u>		
Dr. John Sweet	Superintendent	
Mary Reeder	Business Manager	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, 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 2010 financial statements, which were audited by other auditors whose report dated November 17, 2010, expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Independent School District No. 879, Delano, Minnesota, as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, on our consideration of the District's internal control over financial reporting and 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.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 U.S. generally accepted auditing standards, 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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The accompanying supplementary information identified in the Table of Contents, and the Schedule of Expenditures of Federal Awards 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 procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. The Supplementary Information presents 2010 totals. The Independent School District No. 879's financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated November 17, 2010, expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. Their report stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 17, 2011

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section of Independent School District No. 879, Delano Public Schools' (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standard Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2010-2011) and the prior year (2009-2010) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- General Fund 01 – The overall fund balance increased by \$ 233,033.
- Food Service Fund 02 – The overall fund balance increased by \$ 20,037.
- Community Service Fund 04 – The overall fund balance increased by \$ 55,916.
- Building Construction Fund 06 – This Fund was closed effective June 30, 2011.
- Debt Service Fund 07 – The overall fund balance decreased by \$ 18,490,798 due to payment of the crossover refunding bond payment on February 1, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Government-Wide Financial Statements

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements (Continued)

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
 - 1. Government-Wide Financial Statements
 - 2. Fund Financial Statements

The government-wide statements 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 government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are shown in one category:

- **Governmental activities** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements (Continued)

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

- **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 excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Net Assets
Table A-1

	Governmental Activities 2011	2010	Percentage Change
Current and Other Assets	\$ 13,154,471	\$ 33,152,501	-60.32%
Capital Assets	30,494,404	31,191,882	-2.24%
Total Assets	43,648,875	64,344,383	-32.16%
Current Liabilities	6,058,079	8,051,092	-24.75%
Long-Term Liabilities	27,602,292	47,966,638	-42.46%
Total Liabilities	33,660,371	56,017,730	-39.91%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,892,112	1,916,602	50.90%
Restricted	1,878,743	21,111,140	-91.10%
Unrestricted	5,217,649	(14,701,089)	135.49%
Net Assets	\$ 9,988,504	\$ 8,326,653	19.96%

The District's combined net assets were \$ 9,988,504 on June 30, 2011, an increase of \$ 1,661,851. (See Table A-1.) The large decrease in current and other assets and long-term liabilities is mainly a result of the 2005 Crossover Refunding Bonds being paid using the balance in an escrow account held by a third party for the sole purpose of paying off the Bond when it was called on February 1, 2011. Current liabilities decreased in part due to recognizing the tax shift of \$ 1,100,000 in 2010 to 2011, which in turn, decreased the property taxes levied for subsequent year's expenditures. This revenue recognition change contributed to the increase in net assets invested in capital assets, net of related debt.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Assets

The following Table A-2 presents the change in net assets of the District:

Change in Net Assets
Table A-2

	Governmental Activities for the Fiscal Year Ended June, 30		Total Percentage Change
	2011	2010	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 2,357,022	\$ 2,259,540	4.31%
Operating Grants and Contributions	2,960,275	2,297,913	28.82%
Capital Grants and Contributions	15,350	-	100.00%
General Revenues:			
Property Taxes	6,453,981	5,032,240	28.25%
State Aid-Formula Grants	13,396,219	15,044,523	-10.96%
Investment Earnings	752,624	778,641	-3.34%
Other	148,754	347,772	-57.23%
Total Revenues	<u>26,084,225</u>	<u>25,760,629</u>	<u>1.26%</u>
EXPENDITURES:			
Administration	1,113,256	998,682	11.47%
District Support Services	482,581	509,472	-5.28%
Elementary and Secondary Regular Instruction	10,250,349	10,134,860	1.14%
Vocational Education Instruction	260,804	375,488	-30.54%
Special Education Instruction	2,426,053	2,325,825	4.31%
Instructional Support Services	641,358	666,607	-3.79%
Pupil Support Services	2,045,775	1,992,438	2.68%
Sites and Buildings	2,744,813	2,597,409	5.68%
Fiscal and Other Fixed Cost Programs	68,857	34,694	98.47%
Food Service	830,559	882,397	-5.87%
Community Education and Services	1,743,818	1,666,851	4.62%
Interest and Fiscal Charges on Long-Term Debt	1,814,151	2,352,498	-22.88%
Total Expenditures	<u>24,422,374</u>	<u>24,537,221</u>	<u>-0.47%</u>
Increase (Decrease) in Net Assets	1,661,851	\$ 1,223,408	35.84%
Beginning of Year Net Assets	<u>8,326,653</u>	<u>\$ 7,103,245</u>	<u>17.22%</u>
End of Year Net Assets	<u>\$ 9,988,504</u>	<u>\$ 8,326,653</u>	<u>19.96%</u>

The District's total revenues were \$ 26,084,225 for the year ended June 30, 2011. Property taxes and state aid-formula grants accounted for 76% of total revenue for the year (see Figure A-1). The remaining 24% came from other program revenues (charges for services and operating and capital grants and contributions), general revenues and investment earnings.

INDEPENDENT SCHOOL DISTRICT NO. 879
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-1 Sources of District's Revenues for Fiscal 2011

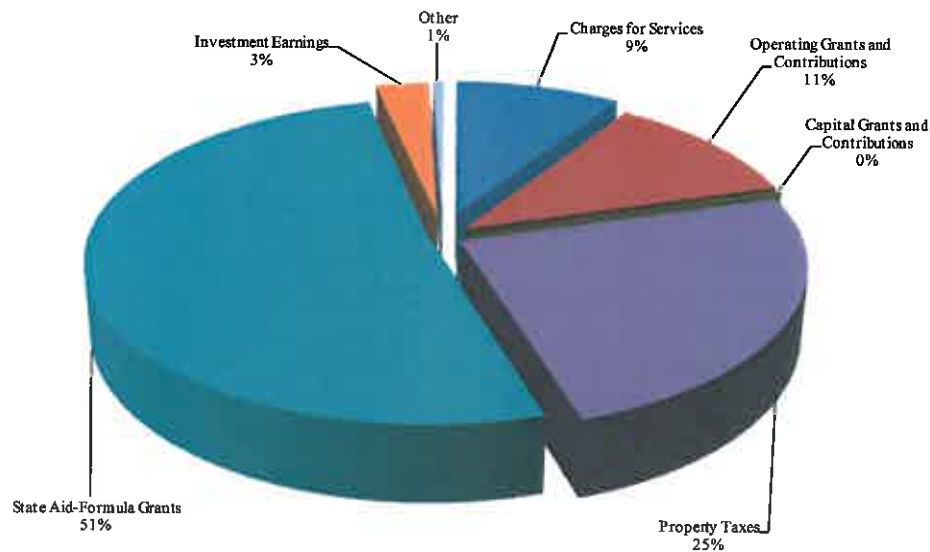
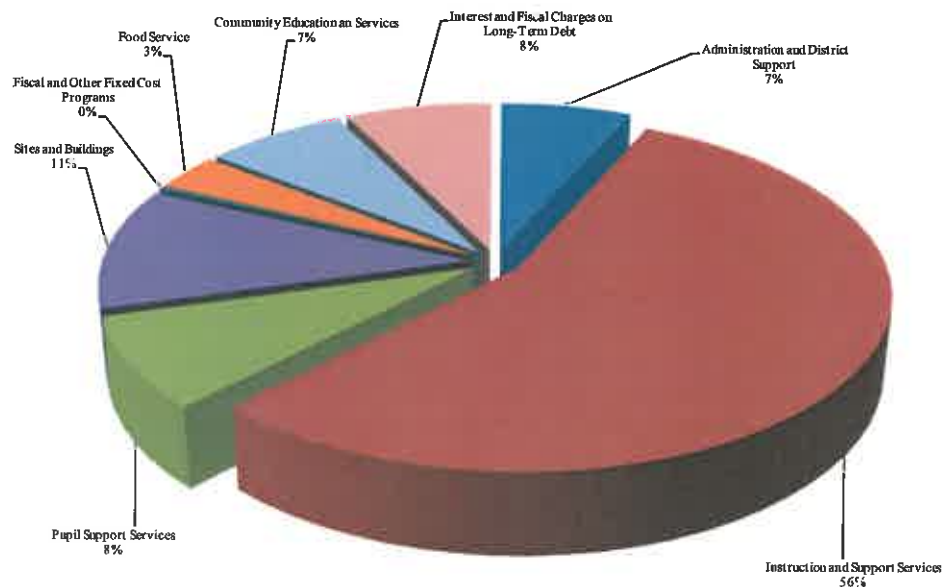


Figure A-2 District Expenses for Fiscal 2011



The total costs of all programs and services were \$ 24,422,374 for fiscal year 2011. The District's expenses are predominately related to instruction and pupil support services (64%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 8%, and 11% accounts for the facilities maintenance needs of the entire District.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The cost of all governmental activities this year was \$ 24,422,374.

- Some of the cost was paid by the users of the District's programs, \$ 2,357,022.
- The federal and state governments subsidized certain programs with grants and contributions, \$ 2,975,625.
- Most of the District's costs, \$ 19,089,727, were paid for by District taxpayers and the taxpayers of the State of Minnesota

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 64% of those resources are spent on instruction and support services associated with education.

NET COST OF GOVERNMENTAL ACTIVITIES

Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2011	2010	2010-2011	2011	2010	2010-2011
Administration	\$ 1,113,256	\$ 998,682	11.47%	\$ 1,054,695	\$ 998,682	5.61%
District Support Services	482,581	509,472	-5.28%	466,925	509,472	-8.35%
Elementary and Secondary Regular Education	10,250,349	10,134,860	1.14%	9,574,540	7,761,399	23.36%
Vocational Education Instruction	260,804	375,488	-30.54%	260,804	375,488	-30.54%
Special Education Instruction	2,426,053	2,325,825	4.31%	570,332	2,323,029	-75.45%
Instructional Support Services	641,358	666,607	-3.79%	624,259	666,607	-6.35%
Pupil Support Services	2,045,775	1,992,438	2.68%	2,007,271	1,992,438	0.74%
Sites and Buildings	2,744,813	2,597,409	5.68%	2,523,759	2,597,409	-2.84%
Fiscal and Other Fixed Cost Programs	68,857	34,694	98.47%	68,857	34,694	98.47%
Food Service	830,559	882,397	-5.87%	(39,511)	39,877	-199.08%
Community Education and Services	1,743,818	1,666,851	4.62%	163,645	328,175	-50.13%
Interest and Fiscal Charges on Long-Term Debt	1,814,151	2,352,498	-22.88%	1,814,151	2,352,498	-22.88%
Total	\$ 24,422,374	\$ 24,537,221	-0.47%	\$ 19,089,727	\$ 19,979,768	-4.45%

Table A-3 presents the total cost of governmental activities, as well as the cost of those specific activities. The net cost represents total cost less program revenues applicable in each category.

In addition, GASB Statement No. 34 requires certain revenues and expenditures to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is shown on page 21 and shows a net change in assets of \$ 1,661,851.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in the governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 7,342,275, a decrease of \$ 18,514,797 over last year's ending fund balance of \$ 25,857,072. The main reason for the decrease was the payment of the crossover refunding bonds on February 1, 2011, which used funds set aside in the reserved for bond refunding fund balance account in debt service.

Revenues and other financing sources for the District's governmental funds were \$ 26,316,913, while total expenditures and other financing uses were \$ 44,831,710, for a deficit of \$ 18,514,797. The reason for the deficit is the crossover refunding bonds payment of \$ 18,550,000, which was funded by the reserved for bond refunding fund balance account.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 and beyond, including transportation services and capital outlay projects.

General Fund revenues are outlined in Table A-4 below.

SUMMARY OF GENERAL FUND REVENUES

Table A-4

	Year Ended		Amount of	Percent
	June 30,		Increase	Increase
	2011	2010	(Decrease)	(Decrease)
LOCAL SOURCES:				
Property Taxes	\$ 3,333,602	\$ 1,969,644	\$ 1,363,958	69.25%
Other	698,503	835,185	(136,682)	-16.37%
State Sources	15,041,960	14,822,340	219,620	1.48%
Federal Sources	691,567	1,876,229	(1,184,662)	-63.14%
Sales and Other Conversion of Assets	7,341	9,525	(2,184)	-22.93%
Total General Fund Revenue	<u>\$ 19,772,973</u>	<u>\$ 19,512,923</u>	<u>\$ 260,050</u>	<u>1.33%</u>

Revenues from the General Fund totaled \$ 19,772,973, an increase of 1.33% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year-to-year without any net change on revenue.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund (Continued)

Property taxes increased due to the additional property tax shift, which required the District to recognize tax payments received in July 2011 as revenue in 2010-2011; this was a change from the prior year. The District's state aid was adjusted for the early recognition of property tax revenue. State sources of revenue shows a decrease due in large part to the fact that state special education revenue in 2008-2009 was understated, so there was a large prior year adjustment that was recognized in 2009-2010. The change in federal sources was due to the fact that in 2009-2010, 8% of state aid was replaced with Federal stimulus dollars; in 2010-2011, state aid was funded at the normal level. Other sources of revenue decreased due to one-time donations received in 2009-2010.

General Fund expenditures are itemized in Table A-5.

SUMMARY OF GENERAL FUND EXPENDITURES

Table A-5

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30,			
	2011	2010		
Salaries	\$ 10,682,971	\$ 10,710,310	\$ (27,339)	-0.26%
Employee Benefits	4,139,841	3,910,943	228,898	5.85%
Purchased Services	2,953,617	2,815,012	138,605	4.92%
Supplies and Materials	792,801	902,926	(110,125)	-12.20%
Capital Expenditures	554,159	372,298	181,861	48.85%
Other Expenditures	425,281	408,581	16,700	4.09%
Total General Fund Revenue	\$ 19,548,670	\$ 19,120,070	\$ 428,600	2.24%

Total General Fund expenditures increased by \$ 428,600, or 2.24%, over the previous year.

Employee benefits increased due to the following reasons: 1) negotiated health benefit increases, 2) the teacher contract changed in relation to the payout of severance – fiscal year 2011 was first year that the balance of severance was paid directly to the teacher's 403(b) account by June 30 of the current year; in previous years, the balance was paid out over two years directly to the teacher and 3) in 2009-2010, workers compensation expense accounts were decreased to zero out the over collected amount in the liability account that had accumulated over several years, which accounts for the increase from the prior year.

Purchased services increased due to increased special education transportation, increased fuel surcharge costs and increased care and treatment and transition services. Supplies and materials decreased because the curriculum purchasing planned for 2010-2011 was postponed. Capital expenditures increased due to the new parking lot that was built on land purchased across from the current elementary school.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund (Continued)

In 2010-2011, the General Fund recorded a surplus of \$ 233,033. The unassigned fund balance closed at \$ 3,830,825, which is 19.6% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2011, the District is in compliance with that fund balance goal.

GENERAL FUND

General Fund Budgetary Highlights

Actual revenues were \$ 188,209 over the final budget, a 0.96% variance. Actual expenditures were \$ 322,625 under budget, a 1.62% variance. The variance between original and final budgeted revenue amounts was due to additional federal stimulus money (Ed Jobs Funds) awarded to the District after the original budget was approved and to funds received to offset specific expenses (i.e. field trips, donations for technology or athletic purposes). The expenditure budget variance is directly related to the additional revenue received for the specific items noted in the sentence above.

DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by \$ 172,937 in 2010-2011. The 2009-2010 ending fund balance included \$ 18,550,000 to be used to pay the crossover bond refunding on February 1, 2011, so the total Debt Service Fund balance decreased by \$ 18,490,798 in 2010-2011. The balance of \$ 232,139 left in the Construction Fund was transferred to debt service in 2010-2011. The District had asked for permission from the State Legislature to transfer the balance in the Construction Fund to Capital to help cover the cost of a new boiler that had to be installed at the Community Education Building; as of June 30, 2011, that transfer was not allowed to happen.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to \$ 30,494,404 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 4 of this report.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Continued)

CAPITAL ASSETS - GOVERNMENTAL ACTIVITIES

Table A-6

	2011	2010, as restated	Percentage Change
Land	\$ 1,022,151	\$ 1,022,151	0.00%
Land Improvements	1,574,775	1,393,699	12.99%
Buildings	37,212,069	37,212,069	0.00%
Equipment	1,513,011	1,714,611	-11.76%
Capital Lease	3,178,525	3,178,525	0.00%
Construction in Progress	13,300	-	100.00%
Less Accumulated Depreciation	(14,019,427)	(13,329,173)	5.18%
Total	<u>\$ 30,494,404</u>	<u>\$ 31,191,882</u>	<u>-2.24%</u>

During the summer of 2010, a parking lot was completed across from the elementary school on land that was purchased in 2008 for a future school building site. The current parking lots did not have sufficient parking spaces for all of the staff and students, so a parking lot for additional student parking was added in the area where the future building parking lot would be located.

Long-Term Liabilities

At year-end, the District had \$ 27,602,292 in total long-term debt, a decrease of 42.49% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 5 of the financial statements.)

LONG-TERM LIABILITIES

Table A-7

	2011	2010	Percentage Change
General Obligation Bonds Payable	\$ 24,880,000	\$ 45,055,000	-44.78%
Capital Lease Payable	2,636,053	2,807,232	-6.10%
Severance Payable	-	65,120	-100.00%
Compensated Absences Payable	30,543	27,153	12.48%
Other Post Employment Benefits Payable	55,696	39,286	41.77%
Total	<u>\$ 27,602,292</u>	<u>\$ 47,993,791</u>	<u>-42.49%</u>

The biggest factor in the decrease in long-term liabilities is due to the \$ 18,550,000 payment of the crossover refunding bonds on February 1, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 879

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. With minimal increases on the basic general education formula allowances for the past couple of biennium's and a 1% increase for each of the next two school years, school districts across the State of Minnesota are forced to utilize the voter-approved excess levy process to fund basic current operations or face significant budget reductions. The excess levy referendum state average at the time of this writing is approximately \$ 1,050 per student. The District currently has authority to levy \$ 733, but the District currently only levies for \$ 426 per student, which is \$ 624 below the state average. The additional \$ 307 operating referendum levy that was approved by the voters was to be used to operate a new building that was to be built. The building bond question failed, and the School Board has chosen to under levy each year, thus the District only levies for the 2002 voter-approved excess operating referendum of \$ 426.

On November 8, 2011, the District will be seeking voter approval to revoke the current excess operating levy referendum of \$ 426 that expires in 2012, and replace that with authority to levy \$ 990 per student for 10 years. The increase in amount will be used to maintain existing student programs. The passage of the \$ 990 levy is projected to keep the fund balance at a level of 9% through the 2015-2016 school year, after which it is hoped that the State of Minnesota will have begun to appropriately fund education. If the levy fails, the District has made \$ 800,000 of recommended cuts to the School Board that could take place in the 2012-2013 school year.

The District had a healthy General Fund balance at the end of the 2010-2011 school year. The District is planning to deficit spend by almost \$ 800,000 in the 2011-2012 school year to allow the voters the chance to approve the increased operating referendum levy. A five-year financial planning program will continue to be used as a tool in long-term financial planning. Enrollment will continue to be monitored; enrollment in 2010-2011 declined slightly from 2009-2010, and the District is projecting stable enrollment for the upcoming school years. Finally, the District will continue to strive to achieve its mission statement of "Educational Excellence is our Foremost Goal".

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD No. 879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities
ASSETS	
Cash and Investments (Including Cash Equivalents)	\$ 5,033,617
Current Property Taxes Receivable	2,662,383
Delinquent Property Taxes Receivable	251,590
Accounts Receivable	3,430
Interest Receivable	176
Due from Department of Education	4,829,773
Due from Other Minnesota School Districts	80,515
Due from Federal Government through Department of Education	57,893
Due from Other Governmental Units	5,075
Inventory	32,345
Prepaid Items	197,674
Capital Assets, Not being Depreciated:	
Land	1,022,151
Construction in Progress	13,300
Capital Assets, Net of Accumulated Depreciation:	
Land Improvements	769,576
Buildings	28,028,072
Machinery and Equipment	661,305
Total Assets	\$ 43,648,875
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts Payable	\$ 73,100
Salaries and Benefits Payable	1,751,181
Interest Payable	425,520
Due to Other Minnesota School Districts	52,455
Due to Other Governmental Units	25,886
Unearned Revenue	98,533
Property Taxes Levied for Subsequent Year's Expenditures	3,607,941
Property Tax Shift Adjustment	23,463
Bonds Payable Net of Discounts:	
Payable Within One Year	1,295,000
Payable After One Year	23,585,000
Capital Lease Payable:	
Payable Within One Year	178,330
Payable After One Year	2,457,723
Vacation Payable:	
Payable Within One Year	30,543
Net Other Post Employment Benefits (OPEB) Obligation	55,696
Total Liabilities	33,660,371
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,892,112
Restricted for:	
Debt Service	418,558
Other Purposes	1,460,185
Unrestricted	5,217,649
Total Net Assets	9,988,504
Total Liabilities and Net Assets	\$ 43,648,875

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 1,113,256	\$ -	\$ 58,561	\$ -	\$ (1,054,695)
District Support Services	482,581	1,633	14,023	-	(466,925)
Elementary and Secondary Regular Instruction	10,250,349	278,515	381,944	15,350	(9,574,540)
Vocational Education Instruction	260,804	-	-	-	(260,804)
Special Education Instruction	2,426,053	34,992	1,820,729	-	(570,332)
Instructional Support Services	641,358	580	16,519	-	(624,259)
Pupil Support Services	2,045,775	-	38,504	-	(2,007,271)
Sites and Buildings	2,744,813	12,203	208,851	-	(2,523,759)
Fiscal and Other Fixed Cost Programs	68,857	-	-	-	(68,857)
Food Service	830,559	603,718	266,352	-	39,511
Community Education and Services	1,743,818	1,425,381	154,792	-	(163,645)
Interest and Fiscal Charges on Long-Term Debt	1,814,151	-	-	-	(1,814,151)
Total Governmental Activities	\$ 24,422,374	\$ 2,357,022	\$ 2,960,275	\$ 15,350	(19,089,727)
General Revenues					
Taxes:					
Property Taxes, Levied for General Purposes					3,337,928
Property Taxes, Levied for Community Service					337,852
Property Taxes, Levied for Debt Service					2,778,201
State Aid-Formula Grants					13,396,219
Other General Revenues					148,754
Investment Income					752,624
Total General Revenues and Transfers					20,751,578
Change in Net Assets					1,661,851
Net Assets - Beginning					8,326,653
Net Assets - Ending					\$ 9,988,504

INDEPENDENT SCHOOL DISTRICT NO. 879

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 2,633,425	\$ 1,717,134	\$ 683,058	\$ 5,033,617
Current Property Taxes Receivable	1,252,227	1,272,342	137,814	2,662,383
Delinquent Property Taxes Receivable	106,674	134,601	10,315	251,590
Accounts Receivable	3,401	-	29	3,430
Interest Receivable	176	-	-	176
Due from Department of Education	4,763,713	30,912	35,148	4,829,773
Due from Federal Government through Department of Education	57,893	-	-	57,893
Due from Other Minnesota School Districts	75,766	-	4,749	80,515
Due from Other Governmental Units	5,075	-	-	5,075
Inventory	10,493	-	21,852	32,345
Prepaid Items	194,921	-	2,753	197,674
	<u>\$ 9,103,764</u>	<u>\$ 3,154,989</u>	<u>\$ 895,718</u>	<u>\$ 13,154,471</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 59,598	\$ -	\$ 13,502	\$ 73,100
Salaries and Benefits Payable	1,640,000	-	111,181	1,751,181
Due to Other Minnesota School Districts	52,455	-	-	52,455
Due to Other Governmental Units	22,203	-	3,683	25,886
Deferred Revenue	97,268	96,106	84,796	278,170
Property Taxes Levied for Subsequent Year's Expenditures	1,168,401	2,310,911	128,629	3,607,941
Property Tax Shift Adjustment	23,463	-	-	23,463
Total Liabilities	<u>3,063,388</u>	<u>2,407,017</u>	<u>341,791</u>	<u>5,812,196</u>
Fund Balances				
Nonspendable	205,414	-	24,605	230,019
Restricted	842,011	747,972	529,322	2,119,305
Committed	186,667	-	-	186,667
Assigned	975,459	-	-	975,459
Unassigned	3,830,825	-	-	3,830,825
Total Fund Balances	<u>6,040,376</u>	<u>747,972</u>	<u>553,927</u>	<u>7,342,275</u>
Total Liabilities and Fund Balance	<u>\$ 9,103,764</u>	<u>\$ 3,154,989</u>	<u>\$ 895,718</u>	<u>\$ 13,154,471</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2011**

Total Fund Balance - Governmental Funds \$ 7,342,275

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and,
therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	44,513,831
Less Accumulated Depreciation	(14,019,427)

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(24,880,000)
Capital Lease Payable	(2,636,053)
Vacation Payable	(30,543)
Net OPEB Obligation	(55,696)

Delinquent property taxes receivables will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds.

179,637

Governmental funds do not report a liability for accrued interest on bonds
and capital loans until due and payable.

(425,520)

Total Net Assets - Governmental Activities

\$ 9,988,504

INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Taxes	\$ 3,333,602	\$ 2,774,853	\$ 337,345	\$ 6,445,800
Other Local and County Revenues	698,503	750,862	1,473,559	2,922,924
Revenue from State Sources	15,041,960	103,042	34,796	15,179,798
Revenue from Federal Sources	691,567	-	226,352	917,919
Sales and Other Conversion of Assets	7,341	-	602,262	609,603
Total Revenues	<u>19,772,973</u>	<u>3,628,757</u>	<u>2,674,314</u>	<u>26,076,044</u>
EXPENDITURES				
Current				
Administration	1,096,437	-	-	1,096,437
District Support Services	481,206	-	-	481,206
Elementary and Secondary Regular Instruction	10,014,976	-	-	10,014,976
Vocational Education Instruction	260,791	-	-	260,791
Special Education Instruction	2,426,022	-	-	2,426,022
Instructional Support Services	628,382	-	-	628,382
Pupil Support Services	2,034,516	-	-	2,034,516
Sites and Buildings	1,700,242	-	82,141	1,782,383
Fiscal and Other Fixed Cost Programs	68,857	-	-	68,857
Food Service	-	-	830,546	830,546
Community Education and Services	-	-	1,714,943	1,714,943
Capital Outlay				
Administration	5,142	-	-	5,142
District Support Services	2,510	-	-	2,510
Elementary and Secondary Regular Instruction	227,724	-	-	227,724
Special Education Instruction	9,918	-	-	9,918
Instructional Support Services	37,762	-	-	37,762
Pupil Support Services	180	-	-	180
Sites and Buildings	270,923	-	18,803	289,726
Food Service	-	-	19,536	19,536
Community Education and Services	-	-	33,238	33,238
Debt Service				
Principal	171,763	1,625,000	-	1,796,763
Interest and Fiscal Charges	111,319	2,176,694	-	2,288,013
Total Expenditures	<u>19,548,670</u>	<u>3,801,694</u>	<u>2,699,207</u>	<u>26,049,571</u>
Excess of Revenues Over (Under) Expenditures	224,303	(172,937)	(24,893)	26,473
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	8,730	-	-	8,730
Payments on Refunding Bonds	-	(18,550,000)	-	(18,550,000)
Transfers In	-	232,139	-	232,139
Transfers Out	-	-	(232,139)	(232,139)
Total Other Financing Sources (Uses)	<u>8,730</u>	<u>(18,317,861)</u>	<u>(232,139)</u>	<u>(18,541,270)</u>
Net Change in Fund Balances	233,033	(18,490,798)	(257,032)	(18,514,797)
FUND BALANCES				
Beginning of Year	<u>5,807,343</u>	<u>19,238,770</u>	<u>810,959</u>	<u>25,857,072</u>
End of Year	<u>\$ 6,040,376</u>	<u>\$ 747,972</u>	<u>\$ 553,927</u>	<u>\$ 7,342,275</u>

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds \$ (18,514,797)

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

Capital outlays are reported in governmental funds as expenditures. However,
in the Statement of Activities, the cost of those assets is allocated over the
estimated useful lives as depreciation expense.

Capital Outlays	331,776
Depreciation Expense	(977,634)
Loss on Disposal	(51,620)

Vacation and severance payable are recognized as paid in the governmental funds
but recognized as the expense is incurred in the Statement of Activities. 61,730

Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in the net assets in the Statement of Activities.

Bonds Payable	1,625,000
Refunded Bonds Payable	18,550,000
Capital Lease Payable	171,179

Interest on long-term debt in the Statement of Activities differs from the amount
reported in the governmental funds because interest is recognized as an
expenditure in the funds when it is due and thus requires use of current
financial resources. In the Statement of Activities, however, interest expense is
recognized as the interest accrues, regardless of when it is due. 477,172

Governmental funds report the effect of issuance costs when the debt is first issued,
whereas these amounts are deferred and amortized in the Statement of Activities. (2,726)

Net OPEB are recognized as paid in the governmental funds but recognized as
the expense is incurred in the Statement of Activities. (16,410)

Delinquent property taxes receivable will be collected in subsequent years,
but are not available soon enough to pay for the current period's
expenditures and, therefore, are deferred in the funds. 8,181

Change in Net Assets - Governmental Activities	<u><u>\$ 1,661,851</u></u>
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INDEPENDENT SCHOOL DISTRICT NO. 879

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Local Property Taxes	\$ 2,244,499	\$ 3,309,860	\$ 3,333,602	\$ 23,742
Other Local and County Revenues	315,675	662,514	698,503	35,989
Revenue from State Sources	15,824,526	14,901,096	15,041,960	140,864
Revenue from Federal Sources	542,620	705,025	691,567	(13,458)
Sales and Other Conversion of Assets	2,300	6,269	7,341	1,072
Total Revenues	<u>18,929,620</u>	<u>19,584,764</u>	<u>19,772,973</u>	<u>188,209</u>
EXPENDITURES				
Current				
Administration	1,000,437	1,117,881	1,096,437	(21,444)
District Support Services	652,059	484,358	481,206	(3,152)
Elementary and Secondary Regular Instruction	9,834,594	10,140,725	10,014,976	(125,749)
Vocational Education Instruction	306,022	273,949	260,791	(13,158)
Special Education Instruction	2,225,256	2,452,118	2,426,022	(26,096)
Instructional Support Services	774,855	648,060	628,382	(19,678)
Pupil Support Services	2,142,645	2,042,002	2,034,516	(7,486)
Sites and Buildings	1,822,479	1,750,964	1,700,242	(50,722)
Fiscal and Other Fixed Cost Programs	73,280	69,651	68,857	(794)
Capital Outlay				
Administration	7,500	6,350	5,142	(1,208)
District Support Services	1,000	2,510	2,510	-
Elementary and Secondary Regular Instruction	217,505	258,222	227,724	(30,498)
Special Education Instruction	-	9,917	9,918	1
Instructional Support Services	7,670	37,763	37,762	(1)
Pupil Support Services	-	192	180	(12)
Sites and Buildings	178,720	293,551	270,923	(22,628)
Debt Service				
Principal	171,178	171,763	171,763	-
Interest and Fiscal Charges	111,904	111,319	111,319	-
Total Expenditures	<u>19,527,104</u>	<u>19,871,295</u>	<u>19,548,670</u>	<u>(322,625)</u>
Excess of Revenues Over (Under) Expenditures	(597,484)	(286,531)	224,303	510,834
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	5,750	8,730	2,980
Transfers In	-	232,139	-	(232,139)
Total Other Financing Sources (Uses)	<u>-</u>	<u>237,889</u>	<u>8,730</u>	<u>(229,159)</u>
Net Change in Fund Balances	<u>\$ (597,484)</u>	<u>\$ (48,642)</u>	233,033	<u>\$ 281,675</u>
FUND BALANCES				
Beginning of Year			<u>5,807,343</u>	
End of Year			<u>\$ 6,040,376</u>	

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 879

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2011

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and Investments (Including Cash Equivalents)	<u>\$ 1,841</u>	<u>\$ 24,044</u>
LIABILITIES		
Accounts Payable	<u>\$ 1,841</u>	<u>\$ 1,205</u>
NET ASSETS		
Held in Trust for Scholarships	<u>\$ -</u>	<u>\$ 22,839</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2011

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Other Local Revenues	\$ 46,391
DEDUCTIONS	
Pupil Support Services	<u>50,587</u>
Change in Net Assets	(4,196)
NET ASSETS	
Beginning of Year	<u>27,035</u>
End of Year	<u>\$ 22,839</u>

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INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

B. Basic Financial Statement Information

The government-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 fund. The fiduciary fund is only reported in the Statement 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

The District applies restricted resources first when an expense is incurred for a 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 that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Agency and Trust Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statement. 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. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and U.S. generally accepted accounting principles. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

INDEPENDENT SCHOOL DISTRICT NO. 879
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services.

Capital Projects Fund – This Fund is used to record all activity of the District's capital and alternate facilities programs that are funded by bond and capital lease proceeds.

Fiduciary Fund:

Agency Fund – The Scholarship Agency Fund is used to account for resources received and held by the District as the agent for others to be used in making scholarship awards.

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust Investment Shares portfolio are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pools are the same as the value of the pool shares.

Minnesota Statutes 118A require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's policy states all deposits must be in compliance with *Minnesota Statutes* 118A.03 for any amounts exceeding FDIC, SAIF, BIF, FCUA or other federal deposit coverage.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will attempt to diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Custodial Credit Risk – Investments: For investments, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are deferred and included in the liability section of the fund financial statements as deferred revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2010, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2011. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as an expenditure at the time of consumption.

I. Property Taxes

The District is located in Wright and Hennepin Counties.

Property tax levies are certified to the County Auditors in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remits taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 50 years for land improvements, buildings, machinery and equipment and vehicles.

Capital assets not depreciated include land and construction in progress. 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.

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums are deferred and amortized over the life of the bond using the straight-line method. Bonds payable is reported net of the applicable premium.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued, premium and discount are reported as other financing sources (uses) and principal payments are reported as expenditures when paid. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Compensated Absences

Certain district employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage during the fiscal year ending June 30, 2011.

O. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaids and inventory.
- **Restricted Fund Balances** – These amounts are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- **Assigned Fund Balances** – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.
- **Minimum Fund Balance Policy** – The District will strive to maintain a minimum unassigned General Fund fund balance of 12% of operating expenditures.

P. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide 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 government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Q. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Projects and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk: As of June 30, 2011, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits as of June 30, 2011 were comprised of checking accounts with a carrying amount of \$ 1,124,757 and a book balance of \$ 934,599.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of June 30, 2011, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Moody's/S&P Ratings</u>
MSDLAF	\$ 679,523	N/A	AAAm
MSDLAF Max	732,462		
MN Trust Investment Share Portfolio	2,512,268	N/A	Aaa
Mn Trust Term Series	<u>200,000</u>	N/A	Aaa
Total Investments	<u>\$ 4,124,253</u>		

Credit Risk: The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

Summary of deposits and investments as of June 30, 2011:

Deposits (Note 3.A.)	\$ 934,599
Petty Cash	650
Investments (Note 3.B.)	<u>4,124,253</u>
Total Deposits and Investments	<u>\$ 5,059,502</u>

Deposits and investments are presented in the June 30, 2011 basic financial statements as follows:

Statement of Net Assets:

Cash and Investments	\$ 5,033,617
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Statement of Fiduciary Net Assets:

Cash and Investments - Agency Fund	1,841
Cash and Investments - Private Purpose Trust Fund	<u>24,044</u>

Total Deposits and Investments	<u>\$ 5,059,502</u>
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NOTE 4 – INTERFUND ACTIVITY

A transfer of \$ 232,139 was made from the Nonmajor Capital Project Fund to the Debt Service Fund. This transfer was made to move the residual balance of prior capital projects.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Restated Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,022,151	\$ -	\$ -	\$ 1,022,151
Construction in Progress	-	13,300	-	13,300
Total Capital Assets not being depreciated	<u>1,022,151</u>	<u>13,300</u>	<u>-</u>	<u>1,035,451</u>
 Capital Assets being Depreciated:				
Improvements	1,393,699	181,076	-	1,574,775
Buildings	40,390,594	-	-	40,390,594
Equipment	<u>1,714,611</u>	<u>137,400</u>	<u>339,000</u>	<u>1,513,011</u>
Total Capital Assets being Depreciated	<u>43,498,904</u>	<u>318,476</u>	<u>339,000</u>	<u>43,478,380</u>
 Less Accumulated Depreciation for:				
Improvements	738,088	67,111	-	805,199
Buildings	11,555,818	806,704	-	12,362,522
Equipment	<u>1,035,267</u>	<u>103,819</u>	<u>287,380</u>	<u>851,706</u>
Total Accumulated Depreciation	<u>13,329,173</u>	<u>977,634</u>	<u>287,380</u>	<u>14,019,427</u>
 Total Capital Assets being Depreciated, Net	<u>30,169,731</u>	<u>(659,158)</u>	<u>51,620</u>	<u>29,458,953</u>
 Governmental Activities, Capital Assets, Net	<u>\$ 31,191,882</u>	<u>\$ (645,858)</u>	<u>\$ 51,620</u>	<u>\$ 30,494,404</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 5 – CAPITAL ASSETS

Depreciation expense for the year ended June 30, 2011 was charged to the following functions:

Administration	\$ 8,586
Elementary and Secondary Regular Instruction	42,574
Pupil Support Services	8,606
Sites and Buildings	905,834
Community Service	<u>12,034</u>
Total Depreciation Expense	<u>\$ 977,634</u>

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
G.O. School Refunding Bonds, Series 2005	10/05/05	4.00%-4.375%	\$ 18,810,000	02/01/25	\$ 18,810,000	\$ 1,020,000
G.O. Alternative Facilities Bonds, Series 2008A	04/23/08	3.50%-4.625%	4,865,000	02/01/28	4,515,000	135,000
G.O. Capital Facilities Bonds, Series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	665,000	85,000
G.O. Corporate Bonds, Series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	890,000	55,000
Total G.O. Bonds					<u>24,880,000</u>	<u>1,295,000</u>
Capital Leases					2,636,053	178,330
Severance Payable					55,696	55,696
Vacation Payable					<u>30,543</u>	<u>30,543</u>
Total all Long-Term Liabilities					<u>\$ 27,602,292</u>	<u>\$ 1,559,569</u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The obligations of the four bonds are paid from the Debt Service Fund. Severance payable, vacation payable, net OPEB obligations and capital leases are paid from the General Fund.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities (Continued)

In 2005, the District issued \$ 18,810,000 G.O. Refunding School Building Bonds, Series 2005A Recreational Facility Refunding Bonds for a crossover refunding of \$ 18,550,000 of G.O. School Building Bonds, Series 2000A. The net proceeds were used to purchase the United States Treasury Securities – State and Local Government Series (SLGS). Those Securities were placed in an irrevocable trust with an escrow agent to provide for the payment of the principle maturities at the call date of the refunded bonds and for the interest on the refunding bonds through the call date of February 1, 2011.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2012	\$ 1,295,000	\$ 1,033,813	\$ 2,328,813
2013	1,350,000	984,203	2,334,203
2014	1,395,000	932,148	2,327,148
2015	1,445,000	878,318	2,323,318
2016	1,520,000	822,126	2,342,126
2017-2021	8,505,000	3,152,566	11,657,566
2022-2026	8,550,000	1,184,860	9,734,860
2027-2028	820,000	57,350	877,350
Total	<u>\$ 24,880,000</u>	<u>\$ 9,045,384</u>	<u>\$ 33,925,384</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities:					
G.O. Bonds	\$ 45,055,000	\$ -	\$ 20,175,000	\$ 24,880,000	\$ 1,295,000
Capital Leases	2,807,232	-	171,179	2,636,053	178,330
Vacation Payable	27,153	30,543	27,153	30,543	30,543
Total Long-Term Liabilities	<u>\$ 47,889,385</u>	<u>\$ 30,543</u>	<u>\$ 20,373,332</u>	<u>\$ 27,546,596</u>	<u>\$ 1,503,873</u>

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes annual principal and interest payments of \$ 23,950 for each of the 15 years of the agreement.

The asset acquired with the capital lease was as follows:

Cost of Assets	\$ 3,178,525
Less Accumulated Depreciation	<u>(206,604)</u>
Total Asset	<u>\$ 2,971,921</u>

The future of the minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	
2012	\$ 283,082
2013	283,082
2014	283,082
2015	283,082
2016	283,082
2017-2021	1,415,410
2022-2023	<u>495,397</u>
Total Lease Payments	3,326,217
Less Amount Representing Interest	<u>(690,164)</u>
Present Value of Capital Lease	<u>\$ 2,636,053</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 –FUND BALANCES/NET ASSETS

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Nonspendable for:				
Inventory	\$ 10,493	\$ -	\$ 21,852	\$ 32,345
Prepays	<u>194,921</u>	<u>-</u>	<u>2,753</u>	<u>197,674</u>
Total Nonspendable	205,414	-	24,605	230,019
Restricted/Reserved for:				
Staff Development	7,942	-	-	7,942
Deferred Maintenance	288,631	-	-	288,631
Health and Safety	(56,882)	-	-	(56,882)
Operating Capital	602,320	-	-	602,320
Debt Service	-	747,972	-	747,972
Food Service	-	-	114,435	114,435
Community Education	-	-	405,956	405,956
Early Childhood and Family Education	-	-	3,785	3,785
School Readiness	-	-	1,867	1,867
Adult Basic Education	-	-	966	966
Community Service	<u>-</u>	<u>-</u>	<u>2,313</u>	<u>2,313</u>
Total Restricted	842,011	747,972	529,322	2,119,305
Committed for:				
Separation/Retirement Benefits	186,667	-	-	186,667
Assigned for:				
Donated Funds	142,058	-	-	142,058
Student Activities	18,431	-	-	18,431
Q Comp	29,388	-	-	29,388
Next Year's Deficit	<u>785,582</u>	<u>-</u>	<u>-</u>	<u>785,582</u>
Total Assigned	975,459	-	-	975,459
Unassigned	<u>3,830,825</u>	<u>-</u>	<u>-</u>	<u>3,830,825</u>
Total Reserved Fund Balance	<u><u>\$ 6,040,376</u></u>	<u><u>\$ 747,972</u></u>	<u><u>\$ 553,927</u></u>	<u><u>\$ 7,342,275</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 7 –FUND BALANCES/NET ASSETS

Fund Equity (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were reserved for staff development.

Restricted/Reserved for Deferred Maintenance – This balance represents resources available to be used on projects and costs that are eligible for health and safety revenues, disabled access levies or defined maintenance projects necessary to prevent further erosion of facilities.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs.

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted for Community Service – This balance represents the accumulation of the activity to provide the community service program.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 7 –FUND BALANCES/NET ASSETS

Fund Equity (Continued)

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, severance, other post-employment benefits and termination benefits. .

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balance for unspent Q Comp dollars.

Assigned for Next Year's Deficit – This balance represents resources segregated from unassigned fund balance for the next year's budgeted deficit.

Net assets restricted for other purposes are comprised of the total positive General Fund reserved fund balances and the total positive net assets restricted for food service and community service.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these Plans follow.

Teachers' Retirement Association

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or 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. These 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 Statutes* 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.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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:

Tier I:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First 10 years	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

Tier II:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan 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 4.0% to 5.5% per year.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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.

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. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-6449 or (800) 657-3853.

B. 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% and 9.0%, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during the fiscal year ended June 30, 2010 was approximately \$ 3.79 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2009 and 2008 were \$ 3.76 billion and \$ 3.65 billion, respectively. The District's contributions for the years ended June 30, 2011, 2010 and 2009 were \$ 490,583, \$ 489,911 and \$ 485,932, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State Legislature approved employee and employer contribution rate increases to be phased in over a four year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5% each year of the four year period. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

GERF members belong to either the Coordinated or 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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF 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 Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan 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 yet receiving them 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 GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ended June 30, 2011, 2010 and 2009 were \$ 202,330, \$ 190,267 and \$ 178,131, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2011, the District contributed \$ 379,560 to the plan.

As of June 30, 2011, there were approximately 34 retirees receiving health benefits from the District's health plan. The plan has a total of 283 active participants and dependents. Of that total, 249 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Costs Obligation

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

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Costs Obligation (Continued)

ARC	\$ 396,649
Interest on Net OPEB Obligation	1,768
Adjustment to ARC	<u>(2,447)</u>
Annual OPEB Cost	395,970
Contributions Made	<u>(379,560)</u>
Increase in Net OPEB Obligation	16,410
Net OPEB Obligation - Beginning of Year	<u>39,286</u>
Net OPEB Obligation - End of Year	<u><u>\$ 55,696</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the past three years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/11	\$ 395,970	\$ 379,560	96%	\$ 55,696
06/30/10	446,963	496,626	111%	39,286
06/30/09	448,302	359,353	80%	88,949

D. Funded Status and Funding Progress

As of the July 1, 2010 actuarial study, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,817,291 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,817,291. The covered payroll (annual payroll of active employees covered by the plan) was \$ 9,671,203, and the ratio of the UAAL to the covered payroll was 39.5%.

Actuarial valuations 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 health care cost trend. Amounts determined regarding the funded status of the plan and the ARC 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 – Other Post Employment Benefits, 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. However, since GASB Statement No. 45 was implemented in fiscal year 2009, only two years of data are showing.

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

E. 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 costs 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, consistent with the long-term perspective of the calculations.

At the July 1, 2010 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 10% initially, reduced incrementally to an ultimate rate of 5% after 8 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This action resulted in a reclassification of fund balances on the governmental fund statements to correspond with the new fund naming structure required by this statement.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
07/01/08	\$ -	\$ 4,123,809	\$ 4,123,809	0%	\$ 10,246,358	40.25%
07/01/10	-	3,817,291	3,817,291	0%	9,671,203	39.47%

* This Schedule was implemented in 2009 and the actuarial valuation has been updated once, therefore, contains only two years of data. See Note 9 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011**

	Special Revenue Funds		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments	\$ 155,869	\$ 527,189	\$ 683,058
Current Property Taxes Receivable	-	137,814	137,814
Delinquent Property Taxes Receivable	-	10,315	10,315
Accounts Receivable	29	-	29
Due from Department of Education	-	35,148	35,148
Due from Other Minnesota School Districts	-	4,749	4,749
Inventory	13,824	8,028	21,852
Prepaid Items	2,753	-	2,753
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 172,475</u>	<u>\$ 723,243</u>	<u>\$ 895,718</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 599	\$ 12,903	\$ 13,502
Salaries and Benefits Payable	19,251	91,930	111,181
Due to Other Governmental Units	-	3,683	3,683
Deferred Revenue	21,613	63,183	84,796
Property Taxes Levied for Subsequent Year's Expenditures	-	128,629	128,629
Total Liabilities	<u>41,463</u>	<u>300,328</u>	<u>341,791</u>
Fund Balances			
Nonspendable	16,577	8,028	24,605
Restricted	114,435	414,887	529,322
Total Fund Balances	<u>131,012</u>	<u>422,915</u>	<u>553,927</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 172,475</u>	<u>\$ 723,243</u>	<u>\$ 895,718</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

	Special Revenue Funds			Capital	Total
	Food Service	Community Service	Total	Project	Nonmajor Funds
REVENUES					
Local Property Taxes	\$ -	\$ 337,345	\$ 337,345	\$ -	\$ 337,345
Other Local and County Revenues	1,675	1,471,786	1,473,461	98	1,473,559
Revenue from State Sources	39,830	(5,034)	34,796	-	34,796
Revenue from Federal Sources	226,352	-	226,352	-	226,352
Sales and Other Conversion of Assets	602,262	-	602,262	-	602,262
Total Revenues	<u>870,119</u>	<u>1,804,097</u>	<u>2,674,216</u>	<u>98</u>	<u>2,674,314</u>
EXPENDITURES					
Current					
Sites and Buildings	-	-	-	82,141	82,141
Food Service	830,546	-	830,546	-	830,546
Community Education and Services	-	1,714,943	1,714,943	-	1,714,943
Capital Outlay					
Sites and Buildings	-	-	-	18,803	18,803
Food Service	19,536	-	19,536	-	19,536
Community Education and Services	-	33,238	33,238	-	33,238
Total Expenditures	<u>850,082</u>	<u>1,748,181</u>	<u>2,598,263</u>	<u>100,944</u>	<u>2,699,207</u>
Excess of Revenues Over (Under) Expenditures	20,037	55,916	75,953	(100,846)	(24,893)
OTHER FINANCING USE					
Transfers Out	-	-	-	(232,139)	(232,139)
Net Change in Fund Balances	20,037	55,916	75,953	(332,985)	(257,032)
FUND BALANCES					
Beginning of Year	<u>110,975</u>	<u>366,999</u>	<u>477,974</u>	<u>332,985</u>	<u>810,959</u>
End of Year	<u>\$ 131,012</u>	<u>\$ 422,915</u>	<u>\$ 553,927</u>	<u>\$ -</u>	<u>\$ 553,927</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2011**

	2011				2010
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
REVENUES					
Local Property Taxes					
Property Tax Levy	\$ 2,164,499	\$ 2,244,143	\$ 2,255,827	\$ 11,684	\$ 2,006,061
County Apportionment	60,000	61,652	75,566	13,914	66,613
Miscellaneous Taxes	20,000	17,270	15,414	(1,856)	7,979
Property Tax Shift	-	986,795	986,795	-	-
Total Local Property Taxes	2,244,499	3,309,860	3,333,602	23,742	2,080,653
Other Local and County Revenues					
Tuition and Fees	243,975	279,692	293,674	13,982	297,126
Interest	15,000	15,000	1,419	(13,581)	17,790
Other Local Revenues	56,700	367,822	403,410	35,588	413,397
Total Other Local and County Revenues	315,675	662,514	698,503	35,989	728,313
Revenue from State Sources					
General Education Aid	14,503,965	14,526,495	14,500,304	(26,191)	13,118,601
Endowment Fund	62,661	61,652	61,652	-	61,142
Special Education Aid	1,100,000	1,211,156	1,383,821	172,665	1,491,408
Educational Agricultural and Homestead Credit	35,000	31,676	31,676	-	29,151
Other Aids	122,900	(929,883)	(935,493)	(5,610)	117,901
Total Revenue from State Sources	15,824,526	14,901,096	15,041,960	140,864	14,818,203
Revenue from Federal Sources					
Education Jobs and Stabilization	-	149,324	147,754	(1,570)	1,313,427
Title I	45,883	52,557	52,556	(1)	54,516
Special Education	441,503	443,558	431,871	(11,687)	443,971
Other	55,234	59,586	59,386	(200)	64,315
Total Revenue from Federal Source	542,620	705,025	691,567	(13,458)	1,876,229
Sales and Other Conversion of Assets					
Local Sales and Other Conversion of Assets	2,300	6,269	7,341	1,072	9,525
Total Revenues	18,929,620	19,584,764	19,772,973	188,209	19,512,923
EXPENDITURES					
Administration					
Salaries and Wages	696,009	757,191	756,399	(792)	696,791
Employee Benefits	232,760	254,363	250,884	(3,479)	210,873
Purchased Services	11,718	21,357	20,307	(1,050)	6,186
Supplies and Materials	41,424	70,489	54,449	(16,040)	58,155
Capital Expenditures	7,500	6,350	5,142	(1,208)	4,072
Other Expenditures	18,526	14,481	14,398	(83)	13,701
Total Administration	1,007,937	1,124,231	1,101,579	(22,652)	989,778
District Support Services					
Salaries and Wages	221,419	220,259	219,941	(318)	233,179
Employee Benefits	138,213	84,710	84,345	(365)	82,110
Purchased Services	197,200	142,148	140,942	(1,206)	147,271
Supplies and Materials	6,000	7,370	7,205	(165)	4,382
Capital Expenditures	1,000	2,510	2,510	-	10,433
Other Expenditures	89,227	29,871	28,773	(1,098)	32,097
Total District Support Services	653,059	486,868	483,716	(3,152)	509,472

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2011**

	2011				2010
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	Actual Amounts
	Original	Final			
EXPENDITURES					
Elementary and Secondary Regular Instruction					
Salaries and Wages	\$ 6,639,881	\$ 6,715,280	\$ 6,710,813	\$ (4,467)	\$ 6,664,276
Employee Benefits	2,389,425	2,418,421	2,408,830	(9,591)	2,228,780
Purchased Services	406,807	467,987	455,843	(12,144)	393,633
Supplies and Materials	362,674	480,433	381,279	(99,154)	492,738
Capital Expenditures	217,505	258,222	227,724	(30,498)	266,679
Other Expenditures	35,807	58,604	58,211	(393)	49,852
Total Elementary and Secondary Regular Instruction	10,052,099	10,398,947	10,242,700	(156,247)	10,095,958
Vocational Education Instruction					
Salaries and Wages	115,772	76,452	63,587	(12,865)	162,781
Employee Benefits	53,123	36,449	31,152	(5,297)	69,897
Purchased Services	136,200	160,851	160,772	(79)	140,938
Supplies and Materials	927	197	5,280	5,083	4,309
Total Vocational Education Instruction	306,022	273,949	260,791	(13,158)	377,925
Special Education Instruction					
Salaries and Wages	1,445,504	1,637,688	1,635,843	(1,845)	1,642,959
Employee Benefits	512,662	570,060	565,669	(4,391)	534,850
Purchased Services	190,360	181,694	180,732	(962)	147,068
Supplies and Materials	59,230	44,198	25,300	(18,898)	30,498
Capital Expenditures	-	9,917	9,918	1	6,200
Other Expenditures	17,500	18,478	18,478	-	8,670
Total Special Education Instruction	2,225,256	2,462,035	2,435,940	(26,095)	2,370,245
Instructional Support Services					
Salaries and Wages	357,937	407,062	401,403	(5,659)	421,036
Employee Benefits	107,377	125,771	121,556	(4,215)	118,689
Purchased Services	40,370	29,858	28,267	(1,591)	33,539
Supplies and Materials	247,371	64,036	56,469	(7,567)	62,782
Capital Expenditures	7,670	37,763	37,762	(1)	10,964
Other Expenditures	21,800	21,333	20,687	(646)	19,597
Total Instructional Support Services	782,525	685,823	666,144	(19,679)	666,607
Pupil Support Services					
Salaries and Wages	432,438	248,987	248,173	(814)	246,609
Employee Benefits	378,231	433,437	425,650	(7,787)	443,641
Purchased Services	1,327,600	1,342,873	1,342,514	(359)	1,293,646
Supplies and Materials	3,931	15,003	16,527	1,524	14,890
Capital Expenditures	-	192	180	(12)	-
Other Expenditures	445	1,702	1,652	(50)	1,582
Total Pupil Support Services	2,142,645	2,042,194	2,034,696	(7,498)	2,000,368

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL GENERAL FUND
For the Year Ended June 30, 2011**

	2011				2010
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
EXPENDITURES					
Sites and Buildings					
Salaries and Wages	\$ 629,505	\$ 656,404	\$ 646,812	\$ (9,592)	\$ 642,679
Employee Benefits	267,523	253,779	251,755	(2,024)	222,103
Purchased Services	611,901	582,920	555,383	(27,537)	589,706
Supplies and Materials	238,550	257,861	246,292	(11,569)	235,172
Capital Expenditures	178,720	293,551	270,923	(22,628)	73,950
Total Sites and Buildings	2,001,199	2,044,515	1,971,165	(73,350)	1,763,610
Fiscal and Other Fixed Cost Programs					
Purchased Services	73,280	69,651	68,857	(794)	63,025
Debt Service					
Principal	171,178	171,763	171,763	-	164,456
Interest and Fiscal Charges	111,904	111,319	111,319	-	118,626
Total Debt Service	283,082	283,082	283,082	-	283,082
Total Expenditures	19,527,104	19,871,295	19,548,670	(322,625)	19,120,070
Excess of Revenues Over (Under) Expenditures	(597,484)	(286,531)	224,303	510,834	392,853
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	5,750	8,730	2,980	-
Transfers In	-	232,139	-	(232,139)	-
Total Other Financing Sources (Uses)	-	237,889	8,730	(229,159)	-
Net Change in Fund Balances	\$ (597,484)	\$ (48,642)	233,033	\$ 281,675	392,853
FUND BALANCES					
Beginning of Year, As Previously Stated			5,807,343		5,237,930
Prior Period Adjustment			-		176,560
Beginning of Year, As Restated			5,807,343		5,414,490
End of Year			\$ 6,040,376		\$ 5,807,343

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL FOOD SERVICE FUND
For the Year Ended June 30, 2011**

	2011			2010
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
				Actual
				Amounts
REVENUES				
Other Local and County Revenues				
Interest	\$ 1,000	\$ 1,000	\$ 49	\$ (951)
Other Local Revenues	-	1,630	1,626	(4)
Total Other Local and County Revenues	1,000	2,630	1,675	(955)
Revenue from State Sources				
Lunch Program Aid	39,645	40,555	39,830	(725)
Revenue from Federal Sources				
Lunch Aid Program	191,795	193,748	192,418	(1,330)
Food Distribution Program	55,000	33,938	33,934	(4)
Total Revenue from Federal Sources	246,795	227,686	226,352	(1,334)
Sales and Other Conversion of Assets				
Sale of Food	601,074	607,555	602,262	(5,293)
Total Revenues	888,514	878,426	870,119	(8,307)
EXPENDITURES				
Food Service				
Salaries and Wages	320,252	330,252	323,892	(6,360)
Employee Benefits	112,239	112,239	99,277	(12,962)
Purchased Services	26,000	26,557	21,485	(5,072)
Supplies and Materials	432,100	411,930	381,249	(30,681)
Capital Expenditures	-	19,536	19,536	-
Other Expenditures	4,510	4,643	4,643	-
Total Food Service	895,101	905,157	850,082	(55,075)
Excess of Revenues Over (Under) Expenditures	\$ (6,587)	\$ (26,731)	20,037	\$ 46,768
FUND BALANCES				
Beginning of Year			110,975	109,121
Ending of Year			\$ 131,012	\$ 110,975

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DETAIL COMMUNITY SERVICE FUND
For the Year Ended June 30, 2011**

	2011			2010
	Budgeted Amounts		Variance with	Actual
	Original	Final	Final Budget - Over (Under)	Amounts
REVENUES				
Local Property Taxes				
Property Tax Levy	\$ 217,129	\$ 215,786	\$ 215,723	\$ 205,413
Property Tax Shift	-	-	121,622	-
Total Local Property Taxes	217,129	215,786	337,345	205,413
Other Local and County Revenues				
Tuition and Fees	1,223,674	1,329,099	1,387,039	1,298,018
Interest	2,000	2,000	196	2,490
Other Local Revenues	49,150	74,188	84,551	49,449
Total Other Local and County Revenues	1,274,824	1,405,287	1,471,786	1,349,957
Revenue from State Sources				
Educational Agricultural and Homestead Credit	7,504	7,504	7,999	7,504
Other Aids	114,885	111,763	(13,033)	101,954
Total Revenue from State Sources	122,389	119,267	(5,034)	109,458
Total Revenues	1,614,342	1,740,340	1,804,097	1,664,828
EXPENDITURES				
Community Education and Services				
Salaries and Wages	1,078,640	1,064,428	1,068,258	1,023,216
Employee Benefits	270,410	263,028	259,728	263,455
Purchased Services	239,374	275,403	275,374	222,675
Supplies and Materials	114,612	123,951	106,965	117,229
Capital Expenditures	22,335	37,485	33,238	23,260
Other Expenditures	6,785	4,607	4,618	6,025
Total Expenditures	1,732,156	1,768,902	1,748,181	1,655,860
Excess of Revenues Over (Under) Expenditures	\$ (117,814)	\$ (28,562)	55,916	8,968
FUND BALANCES				
Beginning of Year			366,999	358,031
End of Year			\$ 422,915	\$ 366,999

INDEPENDENT SCHOOL DISTRICT NO. 271

**SCHEDULE OF CHANGES IN AGENCY FUND
ASSETS AND LIABILITIES
For the Year Ended June 30, 2011**

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>
ASSETS				
Cash and Investments	<u>\$ -</u>	<u>\$ 20,199</u>	<u>\$ 18,358</u>	<u>\$ 1,841</u>
LIABILITIES				
Accounts Payable	<u>\$ -</u>	<u>\$ 20,199</u>	<u>\$ 18,358</u>	<u>\$ 1,841</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2011**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 19,772,973	\$ 19,772,973	\$ (2)	Total Revenue	\$ 98	\$ 98	\$
Total Expenditures	19,548,670	19,548,673	(3)	Total Expenditures	100,944	100,945	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	205,414	205,413	1	460 Nonspendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	7,942	7,942		407 Capital Projects Levy			
405 Deferred Maintenance	288,631	288,631		409 Alternative Facility Program			
406 Health and Safety	(56,882)	(56,882)		413 Building Projects Funded by COP			
407 Capital Projects Levy				<i>Restricted:</i>			
408 Cooperative Revenue				464 Restricted Fund Balance			
414 Operating Debt	-			<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance							
423 Certain Teacher Programs				07 DEBT SERVICE FUND			
424 Operating Capital	602,320	602,320		Total Revenue	\$ 3,628,757	\$ 3,628,757	\$
426 \$ 25 Taconite				Total Expenditures	3,801,694	3,801,693	1
427 Disabled Accessibility				<i>Nonspendable:</i>			
428 Learning and Development				460 Nonspendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs				425 Bond Refunding			
436 State Approved Alternative Program				451 QZAB Payments			
438 Gifted and Talented				<i>Restricted:</i>			
441 Basic Skills Programs				464 Restricted Fund Balance	747,972	747,974	(2)
445 Career Technical Programs				<i>Unassigned:</i>			
446 First Grade Preparedness				463 Unassigned Fund Balance			
449 Safe School Crime							
450 Prekindergarten				08 TRUST FUND			
451 QZAB Payments				Total Revenue	\$ 46,391	\$ 46,391	\$
452 OPEB Liabilities not Held in Trust				Total Expenditures	50,587	50,586	1
453 Unfunded Severance and Retirement Levy				<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance	22,839	22,839	
464 Restricted Fund Balance							
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	186,667	186,667		Total Revenue	\$ -	\$ -	\$
461 Committed				Total Expenditures			
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	975,459	975,459		422 Unassigned Fund Balance			
<i>Unassigned:</i>							
422 Unassigned Fund Balance	3,830,825	3,830,824	1	25 OPEB REVOCABLE TRUST			
02 FOOD SERVICES FUND				Total Revenue	\$ -	\$ -	\$
Total Revenue	\$ 870,119	\$ 870,119	\$	Total Expenditures			
Total Expenditures	850,082	850,083	(1)	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned Fund Balance			
460 Nonspendable Fund Balance	16,577	16,577					
<i>Restricted/Reserved:</i>				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liabilities not Held in Trust				Total Revenue	\$ -	\$ -	\$
<i>Restricted:</i>				Total Expenditures			
464 Restricted Fund Balance	114,435	114,435		<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned Fund Balance			
463 Unassigned Fund Balance							
04 COMMUNITY SERVICE FUND				47 OPEB DEBT SERVICE			
Total Revenue	\$ 1,804,097	\$ 1,804,098	\$ (1)	Total Revenue	\$ -	\$ -	\$
Total Expenditures	1,748,181	1,748,186	(5)	Total Expenditures			
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	8,028	8,028		460 Nonspendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted:</i>			
426 \$ 25 Taconite	-	-		464 Restricted Fund Balance			
431 Community Education	405,956	405,956		<i>Unassigned:</i>			
432 ECCE	3,785	3,785		463 Unassigned Fund Balance			
444 School Readiness	1,867	1,867					
447 Adult Basic Education	966	966					
452 OPEB Liabilities not Held in Trust	-						
<i>Restricted:</i>							
464 Restricted Fund Balance	2,313	2,311	2				
<i>Unassigned:</i>							
463 Unassigned Fund Balance							

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011**

<u>Federal Agency/Pass Through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	\$ 33,934
School Breakfast	10.553	9,403
Milk	10.556	3,007
Type A Lunch	10.555	<u>180,008</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		226,352
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	52,557
Title IV, Part A - Safe and Drug Free Schools	84.186	296
Title II, Part A - Improving Teacher Quality	84.367	58,090
ARRA Education Jobs	84.410	147,753
Through Meeker and Wright Special Education Cooperative No. 938:		
Special Education Cluster:		
Special Education	84.027	168,848
Discretionary Continuous Improvement Monitoring Process	84.027	1,428
ARRA Special Education	84.391	243,239
Discretionary Professional Development	84.173	480
Preschool Grants	84.173	<u>17,880</u>
Total Special Education Cluster		<u>431,875</u>
Total U.S. Department of Education		690,571
Federal Department of Health and Human Services		
Received Direct:		
Early Retiree Reinsurance Program	93.519	<u>1,000</u>
Total Federal Expenditures		<u>\$ 917,923</u>

INDEPENDENT SCHOOL DISTRICT NO. 879

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are received.



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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 School Board
Independent School District No. 879
Delano, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ending June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* that we consider to be a significant deficiency in internal control over financial reporting, as Audit Finding 11-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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*.

We noted certain matters that we reported to management of the District in a separate letter dated November 17, 2011.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern, DeWenter, Vire Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 17, 2011



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the School Board
Independent School District No. 879
Delano, Minnesota

COMPLIANCE

We have audited the compliance of Independent School District No. 879, Delano, Minnesota, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2011. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with *OMB Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Independent School District No. 879, Delano, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.



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

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

This report is intended solely for the information and use of the Board of Education, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 17, 2011

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Findings 11-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	84.410
Name of Federal Program or Cluster:	ARRA Education Jobs
CFDA No.:	84.027, 84.173 and 84.391
Name of Federal Program or Cluster:	Federal Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 879

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2011, the District had a lack of segregation of accounting duties due to a limited number of office employees. Examples of the lack of segregation of accounting duties include but are not limited to:

- The District Accountant enters bank deposit amounts in Skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all accounting duties, the costs of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 – Lack of Segregation of Accounting Duties (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.
3. Official Responsible for Ensuring CAP
John Sweet is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

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REPORT ON LEGAL COMPLIANCE

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, 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 November 17, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the Office of the State Auditor pursuant to *Minnesota Statutes* 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 Political Subdivisions* covers seven main 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 District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Education, administration and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 17, 2011

INDEPENDENT SCHOOL DISTRICT NO. 879
SCHEDULE OF FINDING AND CORRECTIVE
ACTION TAKEN ON LEGAL COMPLIANCE
June 30, 2011

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Payroll Declaration

Minnesota Statutes require claims for which wages are to be paid on an hourly or daily basis be signed indicating the facts recited on the payroll are correct to the best of the declarant's information and belief.

During fiscal year 2010, the District's manual timesheets omitted the declaration required by *Minnesota Statutes*.

CORRECTIVE ACTION TAKEN:

The District added the declaration to manual timesheets and required employee signatures.