

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

**GLENCOE-SILVER LAKE PUBLIC SCHOOL
INDEPENDENT SCHOOL DISTRICT NO. 2859
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INTRODUCTORY SECTION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2011**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Clark Christianson	December 31, 2014	Chairperson
Jamie Alsleben	December 31, 2012	Vice Chairperson
Gary Schreifels	December 31, 2012	Treasurer
Anne Twiss	December 31, 2014	Clerk
Kevin Kuester	December 31, 2012	Director
Jason Lindeman	December 31, 2014	Director

ADMINISTRATION

Christopher Sonju	Superintendent of Schools
Michelle Sander	Business Manager
Crystal Dahlke	Assistant Business Manger
District Offices:	Independent School District No. 2859 Glencoe-Silver Lake Public Schools 1621 E. 16 th Street Glencoe, MN 55336 (320) 864-2491

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2859
Glencoe, 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. 2859, 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 data has been derived from the District's 2010 financial statements and, in our report dated November 3, 2010, we 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 2859, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

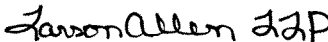
As discussed in the notes to the financial statements, Independent School District No. 2859 adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended June 30, 2011. This statement results in the District reporting nonspendable, restricted, assigned and unassigned fund balances in its governmental funds

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011 on our consideration of Independent School District No. 2859's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress for postemployment benefit plan as listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2859's basic financial statements. The schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the accompanying Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

Austin, Minnesota
December 15, 2011


LarsonAllen LLP

REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

This section of Glencoe-Silver Lake Public Schools – Independent School District No. 2859's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-2011 fiscal years include the following:

- The District has been able to maintain a positive fund balance.
- Enrollment increased 0.83% over 2010.
- Net assets increased 19.86 percent over the prior year or \$1,779,702.
- Total general fund revenues in the Statement of Revenues and Expenditures for Governmental Funds surpassed expenditures by \$538,344.
- Total general fund expenses increased by 3.2%.
- The general fund balance increased to \$6,272,103 compared to \$5,724,025 at June 30, 2010.
- Restricted accounts were maintained for staff development and increased for operating capital.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-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 district-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.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

District-Wide Statements

The district-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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – 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 non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-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 three 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. 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 district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund to accumulate resources for the future payment of other post employment benefits.
- *Fiduciary Funds* – The District is a trustee, or fiduciary, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for only their intended purposes and by those to whom the assets belong. All the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were \$10,738,978. This was a 19.86% increase from the prior year. (See Table A-1.)

**Table A-1
The District's Net Assets**

	Governmental Activities		Percentage
	2011	2010	Change
Current and Other Assets	\$ 9,951,208	\$ 10,689,111	-6.90%
Capital and Non-Current Assets	5,347,184	5,241,543	2.02%
Total Assets	15,298,392	15,930,654	-3.97%
Current Liabilities	3,221,644	4,060,683	-20.66%
Long-Term Liabilities	1,337,770	2,910,695	-54.04%
Total Liabilities	4,559,414	6,971,378	-34.60%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	5,163,307	5,012,558	3.01%
Restricted	1,284,378	1,123,666	14.30%
Unrestricted	4,291,293	2,823,052	52.01%
Total Net Assets	\$ 10,738,978	\$ 8,959,276	19.86%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets

The District's total revenues were \$18,636,056 for the year ended June 30, 2011. Property taxes and state formula aid accounted for 71 percent of total revenues for the year (see Figure A-1 on the next page). The remaining 29 percent came from other general revenues combined with investment earnings and program revenues.

**Table A-2
Change in Net Assets**

	Governmental Activities for the Fiscal Year Ended June 30,		Total %
	2011	2010	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,423,185	\$ 1,472,524	-3.35%
Operating Grants and Contributions	3,784,510	5,032,351	-24.80%
Capital Grants and Contributions	126,198	158,437	-20.35%
<u>General Revenues</u>			
Property Taxes	3,079,290	1,976,100	55.83%
Unrestricted State Aid	10,156,832	9,442,209	7.57%
Investment Earnings	15,807	51,600	-69.37%
Other	50,234	91,427	-45.06%
Total Revenues	<u>18,636,056</u>	<u>18,224,648</u>	
Expenses			
Administration	623,163	816,618	-23.69%
District Support Services	339,772	436,660	-22.19%
Regular Instruction	7,679,694	7,764,642	-1.09%
Vocational Education Instruction	137,233	211,208	-35.02%
Special Education Instruction	2,231,870	2,215,455	0.74%
Instructional Support Services	850,057	623,241	36.39%
Pupil Support Services	1,524,853	1,355,166	12.52%
Sites and Buildings	1,654,284	1,847,218	-10.44%
Fiscal and Other Fixed Cost Programs	59,438	53,773	10.54%
Food Service	1,003,709	925,755	8.42%
Community Service	651,442	739,875	-11.95%
Interest and Fiscal Charges on Long-Term			
Liabilities	100,839	14,592	591.06%
Total Expenses	<u>16,856,354</u>	<u>17,004,203</u>	-0.87%
Increase in Net Assets	<u>1,779,702</u>	<u>1,220,445</u>	
Beginning Net Assets	8,959,276	7,738,831	
Ending Net Assets	<u>\$ 10,738,978</u>	<u>\$ 8,959,276</u>	

The total cost of all programs and services was \$16,856,354. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net assets \$1,779,702 over last year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was \$16,856,354.

- Some of the cost was paid by the users of the District's programs (\$1,423,185).
- The federal and state governments subsidized certain programs with grants and contributions of \$3,910,708.
- Most of the District's costs \$11,522,461, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$3,079,290 in property taxes and \$10,156,832 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$66,041 related to investment earnings and other general revenues.

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

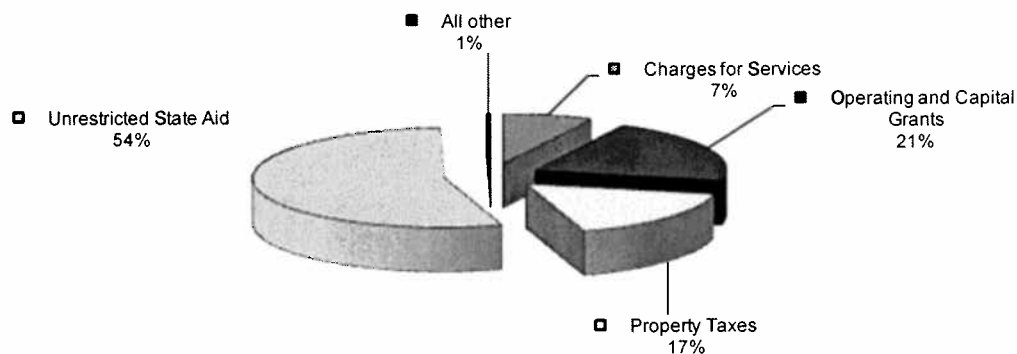
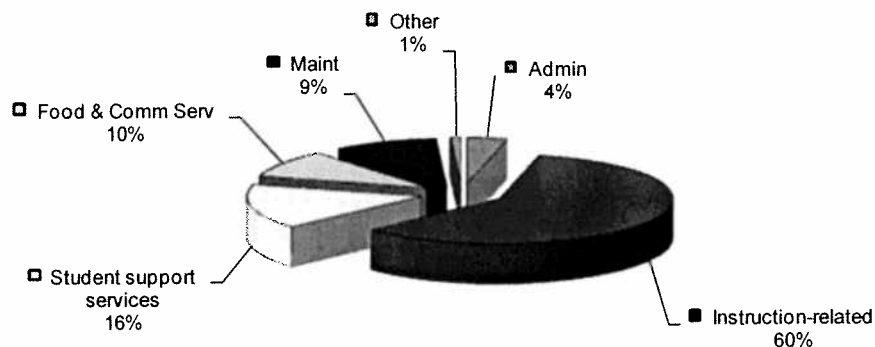


Figure A-2 District Expenses for Fiscal 2011



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Table A-3
Program Costs and Net Cost of Services

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2011	2010		2011	2010	
Administration	\$ 623,163	\$ 816,618	-23.69%	\$ 622,536	\$ 814,673	-23.58%
District Support Services	339,772	436,660	-22.19%	339,772	436,660	-22.19%
Regular Instruction	7,679,694	7,764,642	-1.09%	5,292,935	4,364,493	21.27%
Vocational Education Instruction	137,233	211,208	-35.02%	136,926	210,279	-34.88%
Special Education Instruction	2,231,870	2,215,455	0.74%	1,048,945	579,547	80.99%
Instructional Support Services	850,057	623,241	36.39%	850,057	623,241	36.39%
Pupil Support Services	1,524,853	1,355,166	12.52%	1,388,489	1,355,166	2.46%
Sites and Buildings	1,654,284	1,847,218	-10.44%	1,621,246	1,835,776	-11.69%
Fiscal and Other Fixed Cost Programs	59,438	53,773	10.54%	8,849	17,159	-48.43%
Food Service	1,003,709	925,755	8.42%	(3,979)	(107,711)	-96.31%
Community Service	651,442	739,875	-11.95%	115,846	197,016	-41.20%
Interest and Fiscal Charges on Long-Term Liabilities	100,839	14,592	591.06%	100,839	14,592	591.06%
Total	\$ 16,856,354	\$ 17,004,203	-0.87%	\$ 11,522,461	\$ 10,340,891	11.43%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$6,543,235, which is slightly less than Glencoe-Silver Lake Public Schools' last year's ending fund balance of \$6,543,371.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital operating projects.

The following graph shows the average daily membership for the last 7 years.

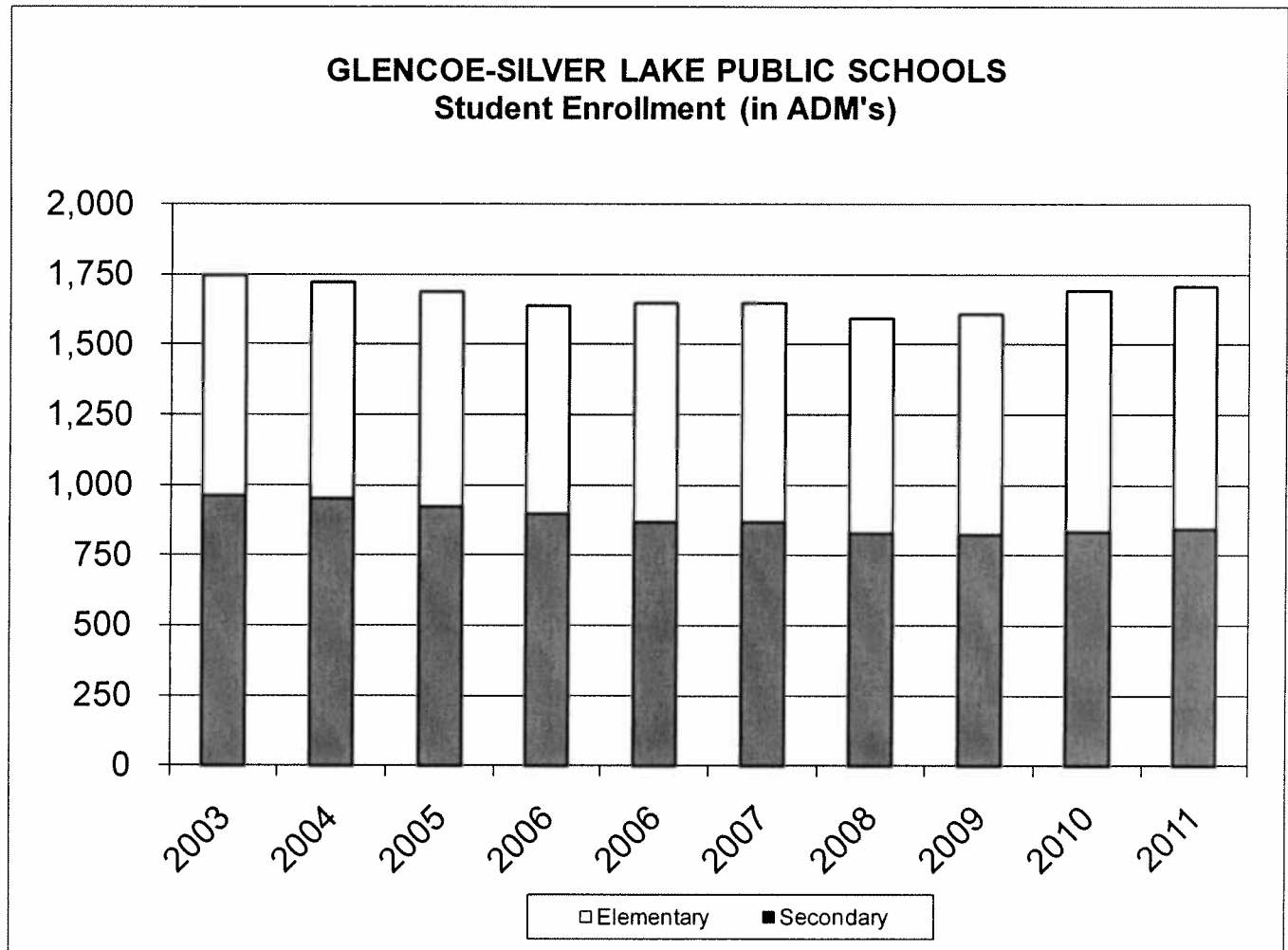
Table A-4
Student Enrollment (Average Daily Membership)

	2005	2006	2007	2008	2009	2010	2011
Pre-K & KH	29	29	28	22	30	32	30
Reg K	94	89	104	100	95	109	116
Elementary	641	624	652	640	658	718	718
Secondary	925	900	868	832	825	837	846
Total Students for Aid	1,689	1,642	1,652	1,594	1,608	1,696	1,710
Percent change	-2.04%	-2.80%	0.61%	-3.48%	0.87%	5.46%	0.83%

GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

GENERAL FUND (CONTINUED)

Figure A-5
Student Enrollment (Average Daily Membership)



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2011	June 30, 2010	Increase (Decrease)	Percent
Local Sources				
Property Taxes	\$ 2,639,548	\$ 1,859,114	\$ 780,434	42.0%
Earnings on Investments	9,982	50,362	(40,380)	-80.2%
Other	497,992	656,899	(158,907)	-24.2%
State Sources	12,293,812	12,152,543	141,269	1.2%
Federal Sources	865,424	1,781,238	(915,814)	-51.4%
Total General Fund Revenue	<u>\$ 16,306,758</u>	<u>\$ 16,500,156</u>	<u>\$ (193,398)</u>	-1.2%

Revenues from state and federal sources totaled \$13,159,236, a net decrease of \$774,545. Total General Fund revenues decreased by \$193,398, or 1.2%, from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and equity aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenues.

The \$141,269 increase in state sources for fiscal 2011 is attributable to various areas of state funding categories. The amount of interest earned decreased by 80.2% due to the state of the economy and investment earnings. The 24.2% (\$158,907) decrease in other areas of funding was due to a decrease in donations received and a decision to move some of the student activity funds that were previously under Board control to the student activity funds that are not under Board control.

The decrease in federal funds of \$915,814 is due to the ending of the Federal Stimulus Funds (AARA Funds) for General Education, Special Education and Title One services.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures
Year Ended**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 8,244,743	\$ 7,911,331	\$ 333,412	4.2%
Employee Benefits	2,417,670	2,316,984	100,686	4.3%
Purchased Services	3,354,974	3,267,107	87,867	2.7%
Supplies and Materials	875,326	743,685	131,641	17.7%
Capital Expenditures	736,066	914,949	(178,883)	-19.6%
Other Expenditures	139,635	130,420	9,215	7.1%
Total Expenditures	<u>\$ 15,768,414</u>	<u>\$ 15,284,476</u>	<u>\$ 483,938</u>	3.2%

Total General Fund expenditures increased \$483,938 or 3.2% from the previous year.

The biggest increase in expenditures came in the area of supplies and materials. Additional items were purchased for classrooms and maintenance. With the additional elementary classroom sections due to increased enrollment, additional items were purchased.

Salaries and benefits fall in line with the contract settlements and the additional staff that were hired.

The decrease in capital expenditures coincides with the remodeling of the classrooms and office area at the Lakeside building the previous year.

The total fund balance of the General Fund increased to \$6,272,103 at June 30, 2011 compared to \$5,724,025 at June 30, 2010.

The finance committee and the school board have worked extremely hard in monitoring the budget and controlling the spending of the school district. In November of 2010 the fund balance policy was reviewed by the finance committee. The policy states that the school district will strive to attain and maintain a fund balance of 20-23% of annual General Fund expenditures. The recommendation of the finance committee to the school board was to keep the fund balance at the 20-23%.

The fund balance policy was revised in May of 2011 to account for the new GASB 54 requirements for Assigned, Committed, Nonspendable, Restricted and Unassigned Fund Balances.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

GENERAL FUND (CONTINUED)

The June 30, 2011 ending unassigned general fund balance of \$5,248,117 is at 33.3% of annual General Fund expenditures.

General Fund Budgetary Highlights

When budget changes are adopted by the Board they fall into one of the following categories:

- Adjusting for changes in pupil enrollment including revenue and potential staff additions.
- Adjustments for utility consumptions and costs or building repairs or maintenance.
- Implementing budgets for specially funded projects (Health and Safety), and projects which include both federal and state grants, reinstating prior year purchase orders being carried over, and budgeting for clearing, resale, and gifts.
- Special Education

During fiscal year 2011, General Fund revenues were over budgeted levels by \$669,897. Factors relating to the difference includes conservative budgets for miscellaneous revenues and additional special education funds.

General Fund Expenditures actual to final budgeted were \$40,137 over budget or .26%. Additional salaries were spent in the area of regular instruction, while decreased salaries were shown in Pupil Support Services and Special Education Instruction. Many times staff are reassigned throughout the year and budgeted amounts are not always reallocated to the correct area of assignment.

OTHER MAJOR FUNDS

FOOD SERVICE FUND

The Food Service Fund experienced an increase of \$14,271 leaving the fund balance at \$116,600. The 2010-2011 school year was the third year that the food service program was outsourced to Compass Group, Inc. through its Chartwell's Food Service Division. Chartwell's has worked extremely well with the district to increase our food service offerings as well as provide a healthy menu that meets the dietary requirements and stay within the budget. There was an increase to both the revenues and expenditure sides of the actual to budget. This was due to the implementation of a free K-12 breakfast program. The decision to offer free breakfast was made in July of 2010 and the budget numbers were not revised to account for the change. Chartwell's did not offer revised budget numbers but were tracking the additional revenues and expenditures related to the breakfast program. Due, to the success of the program with very little additional cost to the district, the board approved to continue to offer the free breakfast program for the 2011-2012 school year.

The district was required to bid the outsourcing of food service for the 2011-2012 school year. The school board awarded the bid once again to Chartwell's Food Service beginning with the 2011-2012 school year for a time period of 3 years.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

COMMUNITY SERVICE

The Community Service Fund fund balance increased from \$98,463 to \$140,299 at June 30, 2011. From the standpoint of maintaining current operating expenditures within the range of annual revenues, the Community Service Fund continues to operate on a sound financial basis. The Community Service Fund consists of Community Education, School Readiness, Early Childhood Family Education, Pre-School Screening and Non-Public Education. All of these programs are providing a service to varying levels of the community. One change that was made at the end of last year is that the operation of the field house is now recorded in the community service fund. Prior to this year, all of the activity, expenses and revenues were recorded in the general fund. Because the field house is a fee based program for the community, these revenues and expenditures need to be recorded as part of Community Education. A portion of the operational expenses remains in the general fund because the facility is used by the phy-ed and athletic departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the District had invested \$5,347,184 in a broad range of capital assets, including school buildings, athletic facilities, vehicles; computer and audio-visual equipment (see Table A-7). Total depreciation expense for the year was \$370,577.

**Table A-7
The District's Capital Assets**

	2011	2010	Percentage Change
Land	\$ 130,000	\$ 130,000	0.0%
Land Improvements	359,463	142,233	152.7%
Buildings and Improvements	9,091,503	9,051,783	0.4%
Equipment	3,495,042	3,346,278	4.4%
Less: Accumulated Depreciation	(7,728,824)	(7,428,751)	4.0%
Total	\$ 5,347,184	\$ 5,241,543	2.0%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year end, the District had \$1,700,461 in general obligation bonds and capital leases, as shown in Table A-8. The District also had \$94,946 in severance benefits payable and \$161,615 in other post employment benefits payable at June 30, 2011. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.)

**Table A-8
The District's Long-Term Liabilities**

	2011	2010	Percentage Change
General Obligation Bonds	\$ 1,545,000	\$ 2,585,000	-40.2%
Net Bond Premium and Discount	19,236	24,482	-21.4%
Loss on Refunding	(47,652)	-	N/A
Obligations Under Capital Leases	183,877	228,985	-19.7%
Other Post Employment Benefits Payable	161,615	102,174	58.2%
Severance Benefits Payable	94,946	692,282	-86.3%
Total	\$ 1,957,022	\$ 3,632,923	-46.1%
Long-Term Liabilities:			
Due Within One Year	\$ 619,252	\$ 722,228	
Due in More Than One Year	1,337,770	2,910,695	
	\$ 1,957,022	\$ 3,632,923	

The long-term liabilities include the debt service account, which records the activity for the McLeod West General Obligation Taxable Reorganizational Operating Debt Bonds. Prior to the consolidation with McLeod West, the McLeod West District sold bonds in the amount of \$2,585,000 to pay off their operational debt. These bonds are payable from fiscal year 2011 through fiscal year 2015. The tax obligation for this debt is only applied to the taxes paid by the former McLeod West District residents.

Under the guidance of the Minnesota Department of Education, in March of 2011 the school board adopted a Resolution Providing for the Partial Defeasancement and Payment of Certain Maturities of the General Obligation Reorganizational Operating Debt Bonds. \$614,378 was used from the excess debt obligations to establish an Escrow Account with Northland Securities. The amount established in the escrow account will be used to eliminate the 2015 debt payment and reduce the levy obligation amount for Pay 2012 and Pay 2013. This resolution was adopted by the three school boards involved with the original consolidation process. GFW, Buffalo Lake Hector Stewart and the GSL school districts.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The economy and state funding continues to be the biggest impact on the school district. The Legislative session ended in May of 2011 with no Education bill in place. Congress did go into Special Session late in July to pass a K-12 Omnibus Education Bill. A couple of major changes happened to impact schools.
 - First, the funding shift was changed from 70/30 to 60/40. Because there was not a new education bill in place, during the month of July, the funding shift actually converted back to 90/10 according to statute. The 60/40 shift will cause a much tighter cash flow situation for districts. The GSL district remains at a healthy fund balance and in a healthy cash flow situation but this will have to be closely monitored during the school year so that funds are available to meet the districts liabilities.
 - Second, a change that was made was an increase to the basic funding formula allowance for the next two years. The allowance was increased by \$50 for each of the two years of the biennium. The formula allowance will go from \$5,124 to \$5,174 in 2011-2012 and \$5,224 in 2012-2013.
 - A third change that will affect school districts was the elimination the Homestead Market Value Credits which in turn decreased the Net Tax Capacity and the total Market Values of districts. The removal of the Homestead Credits changed the property values of the GSL district by 6.97%. In the past, districts levied the full amount of the levy authority. The state then gave homeowners a homestead market value credit. So, the amount of the credits was paid to districts by the State. By eliminating this credit it changes the amount of the tax rate that needs to be charged to homeowners to still be able to collect the full amount of the levies. This change does not affect referendum levies, but does affect all areas of the levy that are based on net tax capacity.
- Minnesota school districts are paid based on pupil units served, a decline or increase in enrollment results in variable revenue that is received for operations. The district enrollment for 2010-2011 increased by .83% at the end of the school year compared to the 2010 year end. The enrollment continues to remain fairly stable. Although a slight decline was noticed with the start of the 2011-2012 school year. Enrollment options continue to hurt the district. The district has a net loss of approximately 300 students. The impact of the consolidation increased our enrollment but also increased the number of students that are leaving the district. A large portion of the former McLeod West school district opted to continue to attend school at GFW or Hutchinson.
- The 2010-2011 school year was the second year of the consolidation with the former McLeod West School District. This has impacted the district in a number of ways. The district boundary lines were extended beyond the city of Brownton to the west. This extended our transportation requirement which increased expenses. The student enrollment increased slightly. By adding an additional community to the district, it also increased the total property valuation of the district. The GSL district now encompasses 6 communities which brings with it a much diversified school district. Those communities include; Glencoe, Silver Lake, Biscay, Plato, New Auburn and Brownton.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- With the increase in enrollment and crowded classrooms along with aging facilities, these factors have forced the school board to accelerate the need to evaluate the district's facilities. The board has held work sessions along with public meetings to develop a plan of action for the district regarding the future of our current facilities. A community facilities group was established. The board proceeded with hiring an architectural firm to work with the district in developing a plan that would meet our classroom needs along with planning for the future and becoming more energy efficient and reducing operational costs. The district held an election on April 5th, 2011. The ballot question asked of voters was for approval of a building bond in the amount of \$17,605,000. The building project would have included closing the Helen Baker facility, remodel and add on to the Lincoln and High School facilities. This project would have allowed the moving of PreK-3 grade to the Lincoln campus. The total project costs were \$18,605,000. The school board had designated \$1,000,000 to the project from the unreserved general fund balance.
- The election results showed that the vote failed by 298 votes. After considerable discussion, the decision was made to go back to the voters on November 8th 2011 for another election. The November 8th election ballot will have two questions on the ballot.
 - Question 1 will be asking the voters to approve the renewal of the current operating referendum of \$727.36 per pupil unit that expires on June 30th, 2013. This ballot question is a 7 year extension of the expiring referendum so there is no tax impact increase.
 - Question 2 will be asking the voters to approve a \$17,995,000 building bond. The proposed building project remained identical to what was presented to voters in April. The only changes were in the dollar amount. The \$17,995,000 reflects a savings in capitalized interest, an increase in building costs and a decrease of \$500,000 in the board contribution from reserved funds.
- The November election results showed that the renewal of the operating referendum for \$727.36 per pupil unit was passed by the voters. There were 2,163 yes votes and 1,212 no votes. The passage of this operating referendum is for a period of 7 years. The renewal of the referendum was essential to maintain the current level of funding that we currently have. The successful election a positive statement of support from the taxpayers.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The second ballot question asking the voters to approve a \$17,995,000 building bond was voted down by the voters. There were 1,544 yes votes and 1,833 no votes. The question failed by 289 votes. Almost identical election results compared to the April 5, 2011 election that failed by 298 votes. Failing to pass the building bond has led to increased board discussion as to the next step to take regarding the future of the districts buildings and how to proceed. The buildings continue to age and the deferred maintenance issues are not going away. Because of the redistricting process that takes places every ten years, state law severely restricts the dates that Minnesota school districts can hold a special election in 2012. These restrictions apply to elections for bond issues and capital projects levies. The earliest date that the district could hold an election would be August 12th, 2012 in conjunction with the primary election. At this time the board has not made a decision regarding another election but is contemplating moving forward with the construction of the ECFE/SR/ECSE addition to the Lincoln building. By utilizing reserve funds and seeking an Early Childhood Grant, it is possible to complete this portion of the project without voter approval. The board strongly feels that the current state of the economy is holding back the support for the building bond levy. The next few months will entail further board discussions as to when to move forward with another election.
- Because of the positive fund balance in both unassigned general fund and operating capital a number of building and grounds projects have been completed. The facility committee has been active in addressing the deferred maintenance, health and safety and operating capital plans and outlining the projects to be completed. Having a positive fund balance again has proven to be a very positive reinforcement for the district, the staff and the community. Facility upgrades will continue to take place as long as the projects stay within our budget means. A number of technology upgrades have also been taking place. Computer labs have been upgraded along with additional interactive boards in more classrooms. Technology upgrades will continue to happen as 21st Century Learning continues to focus more and more towards up to date technology capabilities.
- An important factor driving the academic direction of the school district is the fact that the district is in AYP status. This is the 3rd year of AYP status. This has changed the focus of direction of administrators and teachers in evaluating detailed student data and test scores. The district has worked to develop a district improvement plan as well as building plans for Helen Baker and Lakeside. Lakeside is the building that is not meeting the AYP requirements but because Helen Baker is a feeder school to Lakeside, that building is required to develop a plan as well. Additional staff were hired for the 2010-2011 school year to accommodate the need for assistance with ESL (English Second Language) students. Additional paraprofessionals were also hired to assist with the Kindergarten classes to alleviate the large class sizes and to provide some assistance with core subject areas. The additional staff was kept in place for the 2011-2012 school year. State testing results were not yet issued for the previous year. So as of this writing it is unclear of the district's status regarding AYP. The State of Minnesota has applied to the Federal Department of Education for a waiver for the NCLB. (No Child Left Behind Act) This waiver would allow Minnesota to establish changes to the way the AYP status is calculated and how the individual districts would address their testing status.
- Unsettled contracts that expired June 30, 2011 include the 2011-2013 Teachers Contract, 2011-2013 Local 284 – Support Staff, Principals Contracts, 2011-2013 Community Education Staff and LPN staff.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The district continues to contract with the South West/West Central Service Cooperative – Region 4 for a number of services including finance, payroll and student assistance. The district also utilizes the Little Crow Special Education division of the Coop for assistance in meeting our needs with special education services. The Coop also offers a Transition Program in Cosmos that our district is able to use for a limited number of students that require additional services when we are unable to meet their needs. This poses an additional transportation cost for the district but allows us to be in compliance with state and federal regulations regarding the individual learning plans for students. With all the changes in Special Education, including the state wide tuition billing, this continues to be a difficult area to monitor in the budget. The Coop continues to be a great resource for the district to be able to be a part of to assist in all of these areas of budget and financing.
- Glencoe-Silver Lake Public Schools is a very stable district with strong community support. The District provides a full range of public education services for Pre-school through grade 12. Food service and transportation are provided as supporting programs. The district's community education program includes early childhood, school readiness along with adult learning opportunities. The public school also provides some shared time services for the non-public schools in the district. There is currently a K-9 Lutheran School in Glencoe, a K-6 Catholic School in Glencoe and a K-4 Catholic School also in Silver Lake. The Catholic School in Silver Lake was closed as of June 30, 2011. With the consolidation process complete, Glencoe-Silver Lake now serves the communities of Glencoe, Silver Lake, Plato, New Auburn, Biscay, and Brownton.
- The Glencoe-Silver Lake School is excited about the potential growth that the district could see in the upcoming years. By pursuing a potential building project shows that the district is ready to move forward with the support of the community and the families that attend school here. By focusing on academic achievement and tests scores the school board is committed in improving student successes and involvement and making sure the district strives towards our AYP goals and improvement plan.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report contact the District Office, Independent School District No. 2859, 1621 East 16th Street, Glencoe, MN 55336.

BASIC FINANCIAL STATEMENTS

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET ASSETS
JUNE 30, 2011
(WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2010)**

	Governmental Activities	
	2011	2010
ASSETS		
Cash and Investments	\$ 4,532,990	\$ 5,424,660
Receivables		
Property Taxes	1,231,020	1,227,470
Other Governments	4,144,164	3,957,886
Other	18,272	49,518
Prepaid Items	3,052	2,738
Inventories	21,710	26,839
Capital Assets		
Land and Construction in Progress	130,000	130,000
Other Capital Assets, Net of Depreciation	5,217,184	5,111,543
Total Assets	<u>15,298,392</u>	<u>15,930,654</u>
LIABILITIES		
Salaries and Compensated Absences Payable	1,092,075	1,035,546
Accounts and Contracts Payable	138,408	111,797
Accrued Interest	32,626	15,613
Due to Other Governmental Units	3,964	49,008
Deferred Revenue		
Property Taxes	1,309,014	2,091,466
Local Sources	26,305	35,025
Long-Term Liabilities		
Portion Due Within One Year	619,252	722,228
Portion Due in More Than One Year	1,337,770	2,910,695
Total Liabilities	<u>4,559,414</u>	<u>6,971,378</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	5,163,307	5,012,558
Restricted for		
General Fund Operating Capital Purposes	920,754	829,578
General Fund State-Mandated Restrictions	106,725	93,296
Food Service	116,600	102,329
Community Service	140,299	98,463
Unrestricted	<u>4,291,293</u>	<u>2,823,052</u>
Total Net Assets	<u>\$ 10,738,978</u>	<u>\$ 8,959,276</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

2011

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 623,163	\$ 627	\$ -
District Support Services	339,772	-	-
Regular Instruction	7,679,694	427,014	1,861,502
Vocational Education Instruction	137,233	307	-
Special Education Instruction	2,231,870	47,304	1,135,621
Instructional Support Services	850,057	-	-
Pupil Support Services	1,524,853	-	136,364
Sites and Buildings	1,654,284	5,083	-
Fiscal and Other Fixed Cost Programs	59,438	-	50,589
Food Service	1,003,709	530,264	477,424
Community Service	651,442	412,586	123,010
Interest and Fiscal Charges on Long-Term Liabilities	100,839	-	-
Total School District	<u>\$ 16,856,354</u>	<u>\$ 1,423,185</u>	<u>\$ 3,784,510</u>

General Revenues

Property Taxes Levied for
General Purposes
Community Service
Debt Service
State Aid Not Restricted to Specific Purposes
Earnings on Investments
Miscellaneous
Total General Revenues

Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

		2010
	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Capital	Total	Total
Grants and Contributions	Governmental Activities	Governmental Activities
\$ -	\$ (622,536)	\$ (814,673)
-	(339,772)	(436,660)
98,243	(5,292,935)	(4,364,493)
-	(136,926)	(210,279)
-	(1,048,945)	(579,547)
-	(850,057)	(623,241)
-	(1,388,489)	(1,355,166)
27,955	(1,621,246)	(1,835,776)
-	(8,849)	(17,159)
-	3,979	107,711
-	(115,846)	(197,016)
-	(100,839)	(14,592)
<u>\$ 126,198</u>	<u>(11,522,461)</u>	<u>(10,340,891)</u>

2,652,957	1,848,757
223,293	127,343
203,040	-
10,156,832	9,442,209
15,807	51,600
50,234	91,427
<u>13,302,163</u>	<u>11,561,336</u>
1,779,702	1,220,445
8,959,276	7,738,831
<u>\$ 10,738,978</u>	<u>\$ 8,959,276</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2010)**

			Major
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 3,411,080	\$ 119,442	\$ 84,814
Receivables			
Current Property Taxes	983,516	-	91,830
Delinquent Property Taxes	34,809	-	1,096
Due from Other Minnesota School Districts	32,743	-	-
Due from Minnesota Department of Education	3,936,607	-	48,331
Due from Federal through Minnesota Department of Education	120,587	-	-
Other Receivables	4,422	-	13,850
Prepaid Items	3,025	-	27
Inventory	7,027	14,683	-
Total Assets	<u>\$ 8,533,816</u>	<u>\$ 134,125</u>	<u>\$ 239,948</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Salaries and Compensated Absences Payable	\$ 581,144	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	510,931	-	-
Accounts and Contracts Payable	125,465	6,220	6,723
Due to Other Governmental Units	3,964	-	-
Deferred Revenue			
Property Taxes Levied for Subsequent Year	990,400	-	91,830
Delinquent Property Taxes	34,809	-	1,096
Local Sources	15,000	11,305	-
Total Liabilities	<u>2,261,713</u>	<u>17,525</u>	<u>99,649</u>
Fund Balance			
Nonspendable			
Prepaid Items	3,025	-	27
Inventory	7,027	14,683	-
Restricted for			
Staff Development	92,907	-	-
Deferred Maintenance	13,818	-	-
Health and Safety	(59,458)	-	-
Operating Capital	920,754	-	-
Community Education Programs	-	-	88,882
Early Childhood and Family Education Programs	-	-	4,904
School Readiness	-	-	20,001
Adult Basic Education	-	-	1
Other Purposes	-	101,917	26,484
Assigned			
School Purposes	45,913	-	-
Unassigned	5,248,117	-	-
Total Fund Balance	<u>6,272,103</u>	<u>116,600</u>	<u>140,299</u>
Total Liabilities and Fund Balance	<u>\$ 8,533,816</u>	<u>\$ 134,125</u>	<u>\$ 239,948</u>

See accompanying Notes to Basic Financial Statements.

Funds	Total	
	Governmental Funds	
Debt Service	2011	2010
\$ 115,352	\$ 3,730,688	\$ 4,624,660
119,769	1,195,115	1,204,572
-	35,905	22,898
-	32,743	258,437
5,896	3,990,834	3,107,039
-	120,587	592,410
-	18,272	49,518
-	3,052	2,738
-	21,710	26,839
<u>\$ 241,017</u>	<u>\$ 9,148,906</u>	<u>\$ 9,889,111</u>
\$ -	\$ 581,144	\$ 555,593
-	510,931	479,953
-	138,408	111,797
-	3,964	49,008
226,784	1,309,014	2,091,466
-	35,905	22,898
-	26,305	35,025
<u>226,784</u>	<u>2,605,671</u>	<u>3,345,740</u>
-	3,052	2,738
-	21,710	26,839
-	92,907	92,907
-	13,818	389
-	(59,458)	(37,409)
-	920,754	829,578
-	88,882	48,400
-	4,904	15,499
-	20,001	4,836
-	1	-
14,233	142,634	737,398
-	45,913	61,024
-	5,248,117	4,761,172
<u>14,233</u>	<u>6,543,235</u>	<u>6,543,371</u>
<u>\$ 241,017</u>	<u>\$ 9,148,906</u>	<u>\$ 9,889,111</u>

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET ASSETS GOVERNMENTAL FUNDS
JUNE 30, 2011
(WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
Total Fund Balance for Governmental Funds	\$ 6,543,235	\$ 6,543,371
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	130,000	130,000
Land Improvements, Net of Accumulated Depreciation	303,158	98,250
Buildings and Improvements, Net of Accumulated Depreciation	3,744,048	3,873,771
Equipment, Net of Accumulated Depreciation	1,169,978	1,139,522
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		
	35,905	22,898
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(32,626)	(15,613)
Internal service funds are used by management to accumulate resources for payments of future other post employment benefits. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets at year-end are:		
	802,302	800,000
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(1,545,000)	(2,585,000)
Unamortized Premiums	(19,236)	(24,482)
Deferred Loss on Refunding	47,652	-
Obligations Under Capital Leases	(183,877)	(228,985)
Severance Benefits Payable	(94,946)	(692,282)
Other Post Employment Benefits Payable	(161,615)	(102,174)
Total Net Assets of Governmental Activities	<u>\$ 10,738,978</u>	<u>\$ 8,959,276</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 2,639,548	\$ -	\$ 223,695
Earnings on Investments	9,982	329	226
Other	497,992	530,606	458,159
State Sources	12,293,812	59,182	60,211
Federal Sources	865,424	417,902	799
Total Revenues	<u>16,306,758</u>	<u>1,008,019</u>	<u>743,090</u>
EXPENDITURES			
Current			
Administration	786,727	-	-
District Support Services	349,070	-	-
Regular Instruction	7,605,411	-	-
Vocational Education Instruction	145,879	-	-
Special Education Instruction	2,288,348	-	-
Instructional Support Services	604,161	-	-
Pupil Support Services	1,528,578	-	-
Sites and Buildings	1,645,224	-	-
Fiscal and Other Fixed Cost Programs	59,438	-	-
Food Service	-	974,984	-
Community Service	-	-	668,752
Capital Outlay	736,066	18,764	32,502
Debt Service			
Principal	14,954	-	-
Interest and Fiscal Charges	4,558	-	-
Total Expenditures	<u>15,768,414</u>	<u>993,748</u>	<u>701,254</u>
Excess of Revenues Over Expenditures	538,344	14,271	41,836
OTHER FINANCING SOURCES (USES)			
Capital Lease Issuance	-	-	-
Sale of Equipment Proceeds	9,390	-	-
Judgments for School Districts	344	-	-
Insurance Recovery Proceeds	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>9,734</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	548,078	14,271	41,836
Fund Balance - Beginning	5,724,025	102,329	98,463
Fund Balance - Ending	<u><u>\$ 6,272,103</u></u>	<u><u>\$ 116,600</u></u>	<u><u>\$ 140,299</u></u>

See accompanying Notes to Basic Financial Statements.

Funds Debt Service	Total Governmental Funds	
	2011	2010
\$ 203,040	\$ 3,066,283	\$ 1,987,496
2,968	13,505	51,600
336,874	1,823,631	1,641,474
19,654	12,432,859	12,341,021
-	1,284,125	2,170,175
562,536	18,620,403	18,191,766
-	786,727	798,799
-	349,070	357,183
-	7,605,411	7,186,361
-	145,879	171,306
-	2,288,348	2,194,373
-	604,161	506,071
-	1,528,578	1,353,908
-	1,645,224	1,726,809
-	59,438	53,773
-	974,984	916,376
-	668,752	690,154
-	787,332	964,709
1,040,000	1,054,954	16,719
126,857	131,415	4,225
1,166,857	18,630,273	16,940,766
(604,321)	(9,870)	1,251,000
-	-	217,920
-	9,390	21,420
-	344	8,401
-	-	35,877
-	-	618,554
-	-	(1,418,554)
-	9,734	(516,382)
(604,321)	(136)	734,618
618,554	6,543,371	5,808,753
\$ 14,233	\$ 6,543,235	\$ 6,543,371

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(WITH PARTIAL COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
Net Change in Fund Balance-Total Governmental Funds	\$ (136)	\$ 734,618
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	496,716	615,789
Loss on Disposal of Capital Assets	(11,108)	(217,743)
Proceeds from sales of capital assets	(9,390)	(21,420)
Depreciation Expense	(370,577)	(338,184)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.		
Other Financing Source - Capital Lease	-	(217,920)
Principal Payments - Capital Leases	45,108	46,524
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Loss on Refunding	47,652	-
Repayment of Bond Principal	1,040,000	-
Change in Accrued Interest Expense - General Obligation Bonds	(17,013)	(15,613)
Amortization of Bond Premium	5,246	5,246
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
	13,007	(11,396)
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	537,895	(159,456)
Internal service funds are used by the District to accumulate resources for payment of future other post employment benefits. The net revenue of the internal service funds is reported with governmental activities.		
	2,302	800,000
Change in Net Assets of Governmental Activities	<u>\$ 1,779,702</u>	<u>\$ 1,220,445</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Local Sources				
Property Taxes	\$ 1,958,128	\$ 1,886,713	\$ 2,639,548	\$ 752,835
Earnings on Investments	20,000	20,000	9,982	(10,018)
Other	364,600	263,201	497,992	234,791
State Sources	12,495,993	12,754,148	12,293,812	(460,336)
Federal Sources	418,471	712,799	865,424	152,625
Total Revenues	<u>15,257,192</u>	<u>15,636,861</u>	<u>16,306,758</u>	<u>669,897</u>
EXPENDITURES				
Current				
Administration	888,319	859,618	786,727	(72,891)
District Support Services	435,145	449,060	349,070	(99,990)
Elementary and Secondary				
Regular Instruction	7,156,131	7,265,424	7,605,411	339,987
Vocational Education Instruction	155,168	97,266	145,879	48,613
Special Education Instruction	2,315,438	2,371,253	2,288,348	(82,905)
Instructional Support Services	549,675	543,453	604,161	60,708
Pupil Support Services	1,499,764	1,625,844	1,528,578	(97,266)
Sites and Buildings	1,569,869	1,588,576	1,645,224	56,648
Fiscal and Other Fixed Cost Programs	128,000	128,212	59,438	(68,774)
Capital Outlay	400,500	788,200	736,066	(52,134)
Debt Service				
Principal	9,645	9,645	14,954	5,309
Interest and Fiscal Charges	1,726	1,726	4,558	2,832
Total Expenditures	<u>15,109,380</u>	<u>15,728,277</u>	<u>15,768,414</u>	<u>40,137</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	147,812	(91,416)	538,344	629,760
OTHER FINANCING SOURCES				
Sale of Equipment Proceeds	-	-	9,390	9,390
Judgments for School Districts	2,000	2,000	344	(1,656)
Total Other Financing Sources	<u>2,000</u>	<u>2,000</u>	<u>9,734</u>	<u>7,734</u>
Net Change in Fund Balance	<u>\$ 149,812</u>	<u>\$ (89,416)</u>	<u>548,078</u>	<u>\$ 637,494</u>
FUND BALANCE				
Beginning of Year			<u>5,724,025</u>	
End of Year			<u>\$ 6,272,103</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources				
Earnings on Investments	\$ -	\$ -	\$ 329	\$ 329
Other - Primarily Meal Sales	529,270	529,270	530,606	1,336
State Sources	40,787	40,787	59,182	18,395
Federal Sources	370,828	370,828	417,902	47,074
Total Revenues	<u>940,885</u>	<u>940,885</u>	<u>1,008,019</u>	<u>67,134</u>
EXPENDITURES				
Current				
Food Service	894,781	894,781	974,984	80,203
Capital Outlay	1,434	1,434	18,764	17,330
Total Expenditures	<u>896,215</u>	<u>896,215</u>	<u>993,748</u>	<u>97,533</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 44,670</u>	<u>\$ 44,670</u>	14,271	<u>\$ (30,399)</u>
FUND BALANCE				
Beginning of Year			<u>102,329</u>	
End of Year			<u>\$ 116,600</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Under)</u>
				<u>Final</u>
				<u>Budget</u>
REVENUES				
Local Sources				
Property Taxes	\$ 171,451	\$ 171,451	\$ 223,695	\$ 52,244
Earnings on Investments	-	-	226	226
Other - Primarily Tuition and Fees	321,349	434,749	458,159	23,410
State Sources	137,057	137,057	60,211	(76,846)
Federal Sources	300	300	799	499
Total Revenues	<u>630,157</u>	<u>743,557</u>	<u>743,090</u>	<u>(467)</u>
EXPENDITURES				
Current				
Community Service	557,654	663,430	668,752	5,322
Capital Outlay	<u>16,700</u>	<u>41,700</u>	<u>32,502</u>	<u>(9,198)</u>
Total Expenditures	<u>574,354</u>	<u>705,130</u>	<u>701,254</u>	<u>(3,876)</u>
Excess of Revenues Over Expenditures	<u>\$ 55,803</u>	<u>\$ 38,427</u>	41,836	<u>\$ 3,409</u>
FUND BALANCE				
Beginning of Year			<u>98,463</u>	
End of Year			<u>\$ 140,299</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011**

**Governmental
Activities -
Internal
Service
Funds
2011**

ASSETS

Current Assets	\$ 802,302
Cash and Investments	\$ 802,302
Total Assets	\$ 802,302

NET ASSETS

Unrestricted	\$ 802,302
Total Net Assets	\$ 802,302

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011**

**Governmental
Activities -
Internal
Service
Funds
2011**

NONOPERATING INCOME

Earnings on Investments	\$ 2,302
Change in Net Assets	2,302
Total Net Assets - Beginning	800,000
Total Net Assets - Ending	\$ 802,302

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
JUNE 30, 2011**

**Governmental
Activities -
Internal
Service
Funds**

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ 2,302
Net Cash Provided by Investing Activities	<u>2,302</u>
Net Increase in Cash and Cash Equivalents	2,302
Cash and Cash Equivalents - Beginning	<u>800,000</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 802,302</u></u>
Displayed on Combining Statement of Net Assets as:	
Cash and Investments	<u><u>\$ 802,302</u></u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 997,866
Interest receivable	966
Total Assets	<u>\$ 998,832</u>
NET ASSETS	
Restricted for Scholarships	\$ 998,832
Total Net Assets	<u>\$ 998,832</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2011**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 700
Earnings on Investments	2,610
Total Additions	<u>3,310</u>
DEDUCTIONS	
Scholarships Awarded	<u>21,587</u>
Total Deductions	<u>21,587</u>
Change in Net Assets	(18,277)
Net Assets - Beginning of Year	<u>1,017,109</u>
Net Assets - End of Year	<u>\$ 998,832</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2859 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 2859 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The District-Wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary 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.

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

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

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal users of internal service fund are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for accumulating resources for future payments of other post employment benefits. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. 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 and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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 accounting principles generally accepted in the United States of America. 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. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenues.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the same option of following subsequent private-sector guidance for the proprietary funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligations bond principal, interest and related costs associated with the McLeod West debt issue.

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accumulates resources for the future payment of other post employment benefits.

Fiduciary Fund

Private Purpose Trust Fund

The Private Purpose Trust Fund is used to account for money held by the District in the capacity of trustee or custodian, where both the principal and interest may be spent.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the original budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

Total fund expenditures in excess of the budget require approval of the Board of Education. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

F. Cash and Investments

Cash balances consist of interest bearing accounts and certificates of deposit. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of custodial supplies in the General Fund and purchased food, supplies, and surplus commodities received from the federal government within the Food Service Fund. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Prepaid Items

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

J. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy, which is frozen at \$168,353 for the District. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced in fiscal year 2011 by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. This resulted in a significant increase in the advance recognition of tax revenue in the District's General Fund (and corresponding state aid holdback totaling \$768,145) and an increase in the District's Community Service Fund (and corresponding state aid hold back totaling \$81,907). Since advance collections of Pay 2011 levy amounts at June 30, 2011 were not sufficient to cover the amount required to be advance recognized as revenue, state statute requires that fiscal 2012 general education aid in the amount of \$5,269 be advance recognized. Certain other portions of the District's 2010 pay 2011 levy, normally revenue for the 2011-12 fiscal year, are also advance recognized at June 30, 2011, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2011, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

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

M. Accrued Employee Benefits

Vacation Pay

Since vacation pay does not vest to employees, no long-term portion of vacation liabilities are recorded in the financial statements.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

Severance and Health Benefits

Severance consist of lump sum early retirement incentive payments. Accounting policies for severance benefits are described below.

a. Early Retirement Incentive and Convertible Sick Leave

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

Full-time employees, other than teachers, who have completed at least 15 years of continuous service with the District and who are at least 55 years of age are eligible for severance pay. Eligible employees, upon early retirement, receive as severance pay, an amount representing 66% of their unused accumulation of sick leave days.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

a. Early Retirement Incentive and Convertible Sick Leave (Continued)

During fiscal year 2011, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$6,086. At June 30, 2011, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

b. Other Postemployment Benefits Payable

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay \$100 to \$150 per month toward the premium cost of the individual health insurance for 96 months. The employee pays the difference toward the full premium for any coverage elected. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

N. Deferred Revenue

Deferred revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported deferred revenues for property taxes levied for the subsequent years, delinquent property taxes, unearned for fiscal agent services, for student account balances available for future meals in the Food Service Fund and for a Community Service Fund fund balance penalty.

O. Fund Balance

At June 30, 2011, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. June 30, 2010 partial comparative fund balance data has been reclassified to be presented in accordance with GASBS No. 54.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Finance Committee and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Balance (Continued)

The District has a minimum fund balance policy, which identifies a minimum total of committed, assigned and unassigned fund balance in the General Fund as 20% of the District's operating budgeted expenditures.

P. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers demand deposit accounts and investments to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

Q. 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 workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

R. Net Assets

Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net assets reports \$1,284,378 of restricted net assets; all of which are restricted by enabling legislation.

NOTE 2 STEWARSHIP AND ACCOUNTABILITY

Excess of Expenditures over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2011:

	Budget	Expenditures	Excess
General Fund	\$ 15,728,277	\$ 15,768,414	\$ 40,137
Special Revenue Funds			
Food Service Fund	\$ 896,215	\$ 993,748	\$ 97,533

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- direct obligations or obligations guaranteed by the United States or its agencies.
- shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- general obligations rated "A" or better; revenue obligations rated "AA" or better
- general obligations of the Minnesota Housing Finance Agency rate "A" or better
- bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B Investments (Continued)

At June 30, 2011 the District had the following investments.

External Investment Pools –

	Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 546

The Minnesota School District Liquid Asset Fund (MSDLAF+) is an external investment pool and its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District's investments as rated by Moody's Investors Service:

Type	Rated by	Rating
MSDLAF+ pool	Standard & Poor's	AAAm

C. Balance Sheet Presentation

The deposits and investments are presented in the basic financial statements as follows:

Deposits	\$ 5,530,032
MSDLAF+	546
Cash on Hand	278
Total Pooled Cash and Investments	<u>\$ 5,530,856</u>
Cash and Investments - Statement of Net Assets	\$ 4,532,990
Cash and Investments - Statement of Fiduciary Net Assets	997,866
Total Cash and Investments	<u>\$ 5,530,856</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Total Capital Assets, Not Being Depreciated	130,000	-	-	130,000
Capital Assets, Being Depreciated				
Land Improvements	142,233	217,230	-	359,463
Buildings and Improvements	9,051,783	39,720	-	9,091,503
Equipment	3,346,278	239,766	(91,002)	3,495,042
Total Capital Assets, Being Depreciated	12,540,294	496,716	(91,002)	12,946,008
Accumulated Depreciation for				
Land Improvements	(43,983)	(12,322)	-	(56,305)
Buildings and Improvements	(5,178,012)	(169,443)	-	(5,347,455)
Equipment	(2,206,756)	(188,812)	70,504	(2,325,064)
Total Accumulated Depreciation	(7,428,751)	(370,577)	70,504	(7,728,824)
Total Capital Assets, Being Depreciated, Net	5,111,543	126,139	(20,498)	5,217,184
Governmental Activities Capital Assets, Net	<u>\$ 5,241,543</u>	<u>\$ 126,139</u>	<u>\$ (20,498)</u>	<u>\$ 5,347,184</u>

Depreciation expense was charged to functions of the District as follows:

Governmental Activities	
Administration	\$ 6,789
Elementary and Secondary Regular Instruction	306,811
Special Education Instruction	1,449
Instructional Support Services	7,135
Pupil Support Services	12,773
Sites and Buildings	21,500
Food Service	9,961
Community Service	4,159
Total Depreciation Expense, Governmental Activities	<u>\$ 370,577</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2011:

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
6/17/2009	2.0% - 3.35%	\$ 2,585,000	2/1/2015	\$ 500,000	\$ 1,545,000
Total General Obligation Bonds				500,000	1,545,000
Bond Premium - net				-	19,236
Capital Leases Payable				49,518	183,877
Loss on Refunding				(12,166)	(47,652)
Other Postemployment Benefits Payable				-	161,615
Severance Benefits Payable				81,900	94,946
				<u>\$ 619,252</u>	<u>\$ 1,957,022</u>

B. Future Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including capital leases, compensated absences payable, other postemployment benefits payable, and severance benefits payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2012	\$ 500,000	\$ 59,255
2013	520,000	48,255
2014	525,000	34,475
	<u>\$ 1,545,000</u>	<u>\$ 141,985</u>

C. Description of Long-Term Liabilities

General Obligation Taxable Reorganization Bonds

On July 1, 2009, the District acquired debt of \$2,585,000 of General Obligation Taxable Reorganization Bonds. The bonds were issued on June 1, 2009 by McLeod West to help fund the reorganization of the District. Payments of the debt will be made by Glencoe-Silver Lake Public Schools, Gibbon-Fairfax-Winthrop Public Schools and Buffalo Lake-Hector Public schools.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Description of Long-Term Liabilities (Continued)

General Obligation Taxable Reorganization Bonds (Continued)

On April 1, 2011, the District placed the unexpended proceeds of the General Obligation Taxable Reorganization Bonds in an irrevocable escrow account. The account is to be used to pay \$10,000 in principal of the 2014 and all of bonds maturing in 2015, which is \$550,000, related to the General Obligation Taxable Reorganization Bonds. This transaction resulted in an in substance defeasance, and accordingly the escrow account and related debt are not reported in the District's financial statements. This resulted in a loss on refunding of \$47,652.

Capital Leases Payable

Capital leases are utilized by the District as a means to finance the Facility projects that are too small for issuing bonds and too large for the operating capital funds to cover the costs. These projects over the years have included modifications to the fieldhouse, equipment for the fieldhouse, technology throughout the district, stadium lights, and improvements to the Helen Baker Elementary. Total cost of assets held under capital leases is \$330,314. Related accumulated depreciation of assets under capital leases at June 30, 2011 is \$149,972.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2011:

Year Ending June 30,	
2012	\$ 65,642
2013	65,642
2014	65,642
2015	<u>21,041</u>
Total Minimum Lease Payments	217,967
Less Amounts Representing Interest	<u>34,090</u>
Present Value of Net Minimum Lease Payments	<u>\$ 183,877</u>

Severance Benefits Payable

Severance benefits payable consist of convertible sick leave payable to employees upon retirement. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2010	Net Additions	Retirements	June 30, 2011
Bonds Payable	\$ 2,585,000	\$ -	\$ 1,040,000	\$ 1,545,000
Bond Premium	24,482	-	5,246	19,236
Loss on Refunding	-	(47,652)	-	(47,652)
Lease Purchase Obligations	228,985	-	45,108	183,877
Other Postemployment Benefits Payable	102,174	142,823	83,382	161,615
Severance Benefits Payable	692,282	-	597,336	94,946
	<u>\$ 3,632,923</u>	<u>\$ 95,171</u>	<u>\$ 1,771,072</u>	<u>\$ 1,957,022</u>

NOTE 6 RESTRICTED/ASSIGNED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The assigned fund balances are resources constrained with the intent to be used for a specific purpose. The following is a summary of the restricted and assigned fund balances for the governmental funds:

A. Restricted for Staff Development

This fund balance restriction represents accumulated general education aid resources available to provide staff development programming.

B. Restricted for Deferred Maintenance

This fund balance restriction represents accumulated resources available to provide maintenance on buildings with funding made available for that purpose.

C. Restricted for Health and Safety

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota statute, a deficit in this restriction generates specific future levy authority.

D. Restricted for Operating Capital

Restricted for operating capital represents available resources to be used only for operating capital purposes, including but not limited to the purchase, lease, repair and improvement of school buildings, and the purchase or lease of computers, vehicles, textbooks, and telecommunications equipment.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 RESTRICTED/ASSIGEND FUND BALANCES (CONTINUED)

E. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

F. Restricted for Early Childhood and Family Education Programs

This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

G. Restricted for School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

H. Restricted for Adult Basic Education

The fund balance restriction represents accumulated resources available to provide services for adult basic education.

I. Restricted for Other Purposes

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

J. Assigned for School Purposes

The fund balance is assignment represents accumulated resources for the McLeod West unemployment.

NOTE 7 PENSION PLANS

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

A. Teacher's Retirement Association (TRA)

1. Plan Description

All teachers employed by the District are covered by a cost sharing, multiple employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7 PENSIONS PLANS (CONTINUED)

A. Teacher's Retirement Association (TRA) (Continued)

1. Plan Description (Continued)

TRA provides retirement benefits as well as death and disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for five consecutive years of allowable service, age, and years of credit at termination of 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 or calling TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St Paul MN 55103-1855 or by calling (651) 296-6449 or (800) 657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary while the District is required to contribute at an actuarially determined rate.

The District is required to contribute the following percentages of annual covered payroll: 5.5% for Coordinated Plan members and 9.5% for Basic plan members. The contribution requirements of plan members and the District are established and may be amended by State Statute. The District contributions for the years ended June 30, 2011, 2010, and 2009 were \$362,179, \$355,908 and \$319,088, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (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 Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7 PENSION PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

1. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. The report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive Suite 200, St. Paul, MN 55103-2088, or by calling (651) 296-7460 or (800) 652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary. Employee contribution rates for the Coordinated Plan increased to 6.25% effective January 1, 2011.

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.00% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 7.25%, effective January 1, 2011. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010, and 2009, were \$118,464, \$100,270 and \$82,945, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2011, 2010 and 2009 are \$107,900, \$105,548 and \$95,325, respectively. The related employee contributions were \$246,054, \$245,122 and \$225,526 for the years ended June 30, 2011, 2010 and 2009, respectively.

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's self-insured health insurance plan. There are 192 active participants and 13 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes \$100 - \$150 per month of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2011, the District contributed \$83,382 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 144,425
Interest on Net OPEB Obligation	4,598
Adjustment to Annual Required Contribution	(6,200)
Annual OPEB Cost (Expense)	<u>142,823</u>
Contributions Made	<u>(83,382)</u>
Increase in Net OPEB Obligation	59,441
Net OPEB Obligation - Beginning of Year	<u>102,174</u>
Net OPEB Obligation - End of Year	<u><u>\$ 161,615</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 142,823	58.4%	\$ 161,615
6/30/2010	\$ 152,545	75.7%	\$ 102,174
6/30/2009	\$ 153,525	57.6%	\$ 65,126

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,234,921. The annual payroll for active employees covered by the plan in the actuarial valuation was \$7,306,964 for a ratio of UAAL to covered payroll of 16.9%.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

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

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 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8.5%, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 doesn't exceed 30 years.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 JOINTLY GOVERNED ORGANIZATION

Independent School District No. 2859 is a member of the Little Crow Special Education Cooperative. The Little Crow Special Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by 13 separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources.

REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ -	\$ 1,234,921	\$ 1,234,921	0.0%	\$ 7,306,964	16.9%
7/1/2007	\$ -	\$ 1,349,866	\$ 1,349,866	0.0%	\$ 6,249,711	21.6%

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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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**

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund and other aggregate remaining fund information of Independent School District No. 2859 as of and for the year ended June 30, 2011, which collectively comprise Independent School District No. 2859's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 2859'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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses that therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying Schedule of Findings and Questioned Costs listed as item 2011-1 and 2011-2 to be a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2859'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 also noted additional matters that we reported to management of Independent School District No. 2859 in a separate letter dated December 15, 2011.

Independent School District No. 2859's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not the audit the District's responses and, accordingly, we express no opinion on them.

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2011

**INDEPENDENT AUDITORS' 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**

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

Compliance

We have audited the compliance of the Independent School District No. 2859 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Independent School District No. 2859's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 2859's management. Our responsibility is to express an opinion on Independent School District No. 2859's compliance based on our audit.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Non-Profit 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 Independent School District No. 2859'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 on Independent School District No. 2859's compliance with those requirements.

In our opinion, Independent School District No. 2859 complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

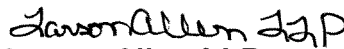
The management of Independent School District No. 2859 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent School District No. 2859's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls 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 Independent School District No. 2859's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 control 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs which are listed as item 2011-3 and 2011-4 to be material weaknesses.

Independent School District No. 2859's responses to the findings identified in our audit are described on the accompanying Schedule of Findings and Questioned Costs. We did not audit Independent School District No. 2859'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, management of Independent School District No. 2859, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.


LarsonAllen LLP

Austin, Minnesota
December 15, 2011

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Grantor/Program	CFDA Number	Agency or Pass-Through Number		Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Minnesota Department of				
Non-Cash Assistance (Commodities):				
National School Lunch Program	# 10.555	1-2589-000	\$ 50,411	
Total Non-Cash Assistance				\$ 50,411
Cash Assistance:				
School Breakfast Program	# 10.553	1-2589-000	78,637	
National School Lunch Program	# 10.555	1-2589-000	288,080	
After School Snack Program	# 10.555	1-2589-000	774	
Special Milk Program for Children	10.556	1-2589-000	742	
Total Cash Assistance				368,233
Total US Department of Agriculture				418,644
U.S. Department of Education				
Pass-Through Minnesota Department of Education				
Cash Assistance:				
Title I, Part A	* 84.010	@	236,748	
ARRA Title I, Part A	* 84.389	@	42,174	
Title I, Part C - Migrant Education - Summer	84.011	@	72,166	
Title II, Part A - Improving Teacher Quality	84.367	@	59,866	
Title III - English Language Acq Grants	84.365	@	12,572	
ARRA Education Jobs Fund	84.410	@	261,815	
Pass-Through SW/WC Service Cooperative #991				
Cash Assistance:				
Special Education - Grants to States	& 84.027	@	75,956	
ARRA Targeted Fund - IDEA Part B 611	& 84.391	@	97,105	
Special Education - Preschool Incentive	& 84.173	@	1,146	
Total Cash Assistance, US Department of Education				859,548
Total Federal Financial Assistance Expended				\$ 1,278,192
# - Child Nutrition Cluster				
& - Special Education Cluster				
* - Title I Cluster				
@ - Unknown Agency or Pass-Through Number				

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 2859. The reporting entity is defined in Note 1 to the financial statements.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Independent School District No. 2859's financial statements.



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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

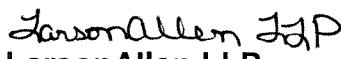
We have audited the financial statements of Independent School District No. 2859 as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. §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, with respect to the items tested, Independent School District No. 2859 complied with the material terms and conditions of applicable legal provisions, except as noted in the accompanying Schedule of Findings and Questioned Costs, which is listed as item 2011-5.

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


LarsonAllen LLP

Austin, Minnesota
December 15, 2011

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**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

PART I: SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Independent School District No. 2859.
2. Two deficiencies in internal control over financial reporting were disclosed by the audit of the basic financial statements. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Independent School District No. 2859 were disclosed during the audit.
4. Two deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs. These deficiencies are considered to be material weaknesses. These are listed as Findings 2011-3 and 2011-4.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 2859 expresses an unqualified opinion.
6. No instances of audit findings relative to the major federal award programs for Independent School District No. 2859 were disclosed during the audit.
7. The following programs were tested as major programs:

U.S. Department of Agriculture:	
Child Nutrition Cluster :	
School Breakfast Program	CFDA #10.553
National School Lunch Program	CFDA #10.555
U.S. Department of Education:	
ARRA Education Jobs Fund	CFDA #84.410
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District No. 2859 was not determined to be a low-risk auditee.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

FINDING: 2011-1 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: The District must be able to prevent or detect the omission of a material disclosure in the annual financial statements.

Questioned Costs: None

Context: The District has informed us they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approved these prior to the issuance of the annual financial statements.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's controls.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Recommendation: The District should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2012.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:
(CONTINUED)**

FINDING: 2011-2 MATERIAL AUDIT ADJUSTMENTS

- Condition:** The District made journal entries to adjust accounts to year end balances. However, the audit firm identified certain misstatements and proposed entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria:** The District should have controls in place to prevent or detect a material misstatement in the financial statements in a timely manner.
- Questioned Costs:** None
- Context:** The District has informed us that they will continue to rely upon the audit firm to propose such audit adjustments as are necessary to adjust accounts in accordance with GAAP. Management will review and approve those entries prior to recording them.
- Effect:** The potential exists that the financial statements could be materially misstated and not be prevented or detected by the District's controls.
- Cause:** The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).
- Recommendation:** The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will review the prior year journal entries to determine training needs with the intent to complete all journal entries necessary to adjust accounts to their appropriate year end balances.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP completion date is June 30, 2012.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

**FINDING: 2011-3 ED JOBS PROGRAM PASS THROUGH MINNESOTA DEPARTMENT OF
EDUCATION
INTERNAL CONTROL OVER REPORTING**

- Condition:** The quarterly 1512 reports were not reviewed and approved prior to submission
- Criteria:** Internal controls require that reports be reviewed and approved by an individual independent of the report preparation.
- Questioned Costs:** None
- Context:** Not applicable
- Effect:** The potential exists that inaccurate data is reported and would not be prevented or detected by the District's internal controls.
- Cause:** The District was not aware of the internal control requirements associated with federal programs.
- Recommendation:** We recommend the District implement a process to review and approve the various reports required for the federal program

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will develop a process to review and approved reports prior to submission.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The Board of Education of Independent School District No. 2859 and administration will review the CAP as of June 30, 2011.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
(CONTINUED)**

**FINDING: 2011-4 REVIEW OF CLICS REPORT SUBMISSIONS
INTERNAL CONTROL OVER REPORTING**

Condition: CLiCS reports for food service are prepared and submitted by the same individual. The reports are not reviewed by another responsible official.

Criteria: Internal controls require that reports be reviewed and approved by an individual independent of the report preparation.

Questioned Costs: None

Context: None.

Effect: The potential exists that inaccurate data is reported and not detected and corrected by the District's internal controls.

Cause: The District was continuing past practice of having one individual prepare and submit the CLiCS reports.

Recommendation: We recommend that an individual other than the person preparing the reports should review the reports before they are submitted.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will immediately implement the recommendation.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The Board of Education and administration will be monitoring this corrective action plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

2011-5 Unclaimed Property

Condition: The District did not turn over to the State of Minnesota outstanding checks that are greater than three years or one year for unpaid compensation.

Criteria: Minnesota Statue 345.41 requires that any unclaimed property needs to be reported and paid or delivered to the State Commissioner of Commerce.

Questioned Costs: None

Context: None

Effect: The District is not in compliance with state statute.

Cause: The District did not report the unclaimed property

Recommendation: We recommend the District turn over to the State any unclaimed property that is in excess of three years or one year for compensation.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will implement procedures to ensure that MN Statutes are followed.

Official Responsible for Ensuring CAP:

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

Immediately

Plan to Monitor Completion of CAP:

The Board of Education of Independent School District No. 2859 and administration will review the CAP as of June 30, 2012

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2010-04	Internal Control Over Cash Management	Corrected	
2010-05	Internal Controls Over Reporting	Not Corrected	See Finding 2011-3
2010-06	Time Certifications & Time and Effort Distributions Records	Corrected	
2010-07	Inappropriate Personnel Activity Report Completion	Corrected	
2010-08	Improper Child on Special Education December 1 st Child Count Sheet	Corrected Corrected	
2010-09	Reimbursement Request in Advance of Payment of Expenditures	Corrected	

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2011**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenue	\$ 16,307,102	\$ 16,307,101	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 15,768,414	\$ 15,768,411	\$ 3	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Nonspendable:			
460 Nonspendable	\$ 10,052	\$ 10,052	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted:			
403 Staff Development	\$ 92,907	\$ 92,907	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 13,818	\$ 13,818	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health and Safety	\$ (59,458)	\$ (59,458)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	Unassigned:			
411 Severance Pay	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
419 Encumbrances	\$ -	\$ -	\$ -	Total Revenue	\$ 562,536	\$ 562,536	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 1,166,857	\$ 1,166,857	\$ -
424 Operating Capital	\$ 920,754	\$ 920,754	\$ -	Restricted:			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
428 Learning and Development	\$ -	\$ -	\$ -	464 Other Purposes	\$ 14,233	\$ 14,233	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	Unassigned:			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -				
438 Grad Standards Gifted & Talented	\$ -	\$ -	\$ -	08 TRUST			
441 Basic Skills Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 3,310	\$ 3,310	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 21,587	\$ 21,587	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -	Unreserved:			
449 Safe Schools - Crime Levy	\$ -	\$ -	\$ -	422 Unassigned	\$ 998,832	\$ 998,833	\$ (1)
450 Pre-Kindergarten	\$ -	\$ -	\$ -				
451 QZAB Payments	\$ -	\$ -	\$ -	09 AGENCY			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Unreserved:			
464 Other Purposes	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Committed:							
418 Committed for Severance	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
Assigned				Total Revenue	\$ 2,302	\$ 2,302	\$ -
462 Assigned	\$ 45,913	\$ 45,913	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
422 Unassigned	\$ 5,248,117	\$ 5,248,116	\$ 1	422 Unassigned	\$ 802,302	\$ 802,302	\$ -
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenue	\$ 1,008,019	\$ 1,008,018	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 993,748	\$ 993,747	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Fund Balance				Unassigned:			
Nonspendable				422 Unassigned	\$ -	\$ -	\$ -
460 Nonspendable	\$ 14,683	\$ 14,683	\$ -				
Restricted:				45 OPEB IRREVOCABLE TRUST			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 101,917	\$ 101,916	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Unassigned:				Unassigned:			
463 Unassigned	\$ -	\$ -	\$ -	422 Unassigned	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE			
Total Revenue	\$ 743,090	\$ 743,081	\$ 9	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 701,254	\$ 701,246	\$ 8	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Restricted:			
460 Nonspendable	\$ 27	\$ 27	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
Restricted:				Unassigned:			
419 Encumbrances	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 88,882	\$ 88,882	\$ -				
432 E. C. F. E.	\$ 4,904	\$ 4,904	\$ -				
444 School Readiness	\$ 20,001	\$ 20,001	\$ -				
447 Adult Basic Education	\$ 1	\$ 1	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ 26,484	\$ 26,483	\$ 1				
Unassigned:							
463 Unassigned	\$ -	\$ -	\$ -				

EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 2859 as of and for the year ended June 30, 2011. This financial statement is the responsibility of the District's extracurricular student activity accounts management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded.

As described in Note 1, this financial statement has been prepared on the cash basis of accounting, as prescribed by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's extracurricular student activity accounts for the year ended June 30, 2011, and the cash balances at that date on the basis of accounting as described in Note 1.

LarsonAllen LLP
LarsonAllen LLP

Austin, Minnesota
December 15, 2011

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2011**

Funds	Balance 06/30/10	Transfers and Receipts	Transfers and Disburse- ments	Balance 06/30/11
Mock Trial	\$ 152	\$ 250	\$ 74	\$ 328
High School Yearbook	(1,471)	896	-	(575)
Project Dirt	272	250	-	522
DI	-	268	-	268
Art	2,949	2,867	1,931	3,885
Band	5,356	42,631	31,460	16,527
Business Professional Association (BPA)	3,197	11,233	8,903	5,527
Trip Abroad	325	478	803	-
Choir	815	1,013	1,828	-
Close-Up	1,354	11,474	11,663	1,165
Kindergarten Entertainment	-	1,250	1,250	-
Grade 1 Entertainment	-	1,250	1,250	-
Grade 2 Entertainment	-	1,255	1,255	-
Grade 3 Entertainment	-	1,300	1,300	-
Grade 4 Entertainment	-	1,250	1,250	-
FFA	7,339	21,110	27,893	556
FCCLA	53	-	-	53
History	218	880	759	339
LS Art Club	51	-	51	-
Lincoln Student Council	3,968	3,440	3,177	4,231
Grade 5 Entertainment	-	1,000	1,000	-
Grade 6 Entertainment	-	1,000	1,000	-
Lincoln Yearbooks	197	704	742	159
YES Grant	500	-	-	500
HS Student Council	1,107	2,835	3,685	257
Interest - Admin	-	60	60	-
LS Student Council	572	857	1,121	308
DCD	723	133	667	189
Nat'l Honor Society	2,061	3,552	1,484	4,129
Schools Elem Memory Book	2,144	4,515	4,651	2,008
Class of 2011	8,955	-	8,955	-
Class of 2012	3,287	17,296	10,765	9,818
Class of 2013	-	3,822	2,260	1,562
Science Fair	195	-	195	-
Wetlands	378	-	121	257
Totals	<u>\$ 44,697</u>	<u>\$ 138,869</u>	<u>\$ 131,553</u>	<u>\$ 52,013</u>

See accompanying Note Financial Statement.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2011**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Extracurricular student activity account transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Extracurricular student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund-raising events.

The accounts of the District's extracurricular student activity accounts are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2 COLLATERAL

Cash balances are held in demand accounts and in a certificate of deposit. In accordance with Minnesota statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

Minnesota statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance.

As of June 30, 2011, the Student Activity Funds' deposits were entirely covered by federal depository insurance.



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REPORT ON COMPLIANCE

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular student activity funds of Independent School District No. 2859 as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. In our report, our opinion was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Further, the financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123.38.

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

The results of our tests indicate that, with respect to the items tested, the District's extracurricular student activity accounts complied with the material terms and conditions of applicable legal provisions except as described on the Schedule of Findings for Extracurricular Student Activity Accounts as items 2011-6.

Independent School District No. 2859's responses to the findings identified in our audit are described in the accompanying schedule of findings. 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, management, and students of Independent School District No. 2859 and the Minnesota Department of Education, and the Office of the State Auditor of Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.


LarsonAllen LLP

Austin, Minnesota
December 15, 2011

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS
JUNE 30, 2011**

FINDING 2011-6: NEGATIVE STUDENT ACTIVITY FUND BALANCE

A certain student activity fund (HS Yearbook) had a negative balance at June 30, 2011. Guidelines indicate that balances cannot be negative. We recommend that balances be monitored by the advisor or treasurer of each fund to maintain a current balance of zero or above.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding

The District will monitor the account balances on a monthly basis to maintain a current balance of zero or above.

Official Responsible for Ensuring CAP

Michelle Sander, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP

Planned completion date is November 1, 2011.

Plan to Monitor Completion of CAP

The Independent School District No. 2859 Board of Education will be monitoring this corrective action plan.