

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

**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, 2010**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Clark Christianson	December 31, 2010	Chairperson
Glenn Gruenhagen	December 31, 2010	Vice Chairperson
Gary Schreifels	December 31, 2012	Treasurer
Anne Twiss	December 31, 2010	Clerk
Kevin Kuester	December 31, 2012	Director
Jamie Alsleben	December 31, 2010	Director
Tom Lemke	December 31, 2010	Director
Jason Lindeman	December 31, 2010	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 and the aggregate remaining fund information of Independent School District No. 2859, as of and for the year ended June 30, 2010, 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.

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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2010 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.

Board of Education
Independent School District No. 2859

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



LarsonAllen LLP

Austin, Minnesota
November 3, 2010

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, 2010**

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, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section. Prior year data has not been changed to reflect the consolidation of the McLeod West School District.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-2010 fiscal years include the following:

- The District has been able to increase the general fund balance beyond the fund balance policy.
- Enrollment increased 5.46% over 2009.
- Combined net assets decreased 3.46 percent over the prior year or \$321,020.
- Total general fund revenues in the Statement of Revenues and Expenditures for Governmental Funds surpassed expenditures by \$1,215,680.
- Total general fund expenses increased by 15.9%.
- The general fund balance increased to \$5,724,025 compared to Glencoe-Silver Lake Public Schools \$4,863,198 at June 30, 2009.
- Reserved accounts were increased for staff development and 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, 2010**

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, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were \$8,959,276. This was a 3.46% decrease from the prior year. (See Table A-1.)

	Governmental Activities		Percentage
	2010	2009	Change
Current and Other Assets	\$ 10,689,111	\$ 7,961,977	34.25%
Capital and Non-Current Assets	5,241,543	4,952,317	5.84%
Total Assets	15,930,654	12,914,294	23.36%
Current Liabilities	4,060,683	2,994,508	35.60%
Long-Term Liabilities	2,910,695	639,490	355.16%
Total Liabilities	6,971,378	3,633,998	91.84%
Net Assets			
Invested in Capital Assets			
Net of Related Debt	5,012,558	4,894,728	2.41%
Restricted	1,123,666	993,647	13.09%
Unrestricted	2,823,052	3,391,921	-16.77%
Total Net Assets	\$ 8,959,276	\$ 9,280,296	-3.46%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets

The District's total revenues were \$18,224,648 for the year ended June 30, 2010. Property taxes and state formula aid accounted for 63 percent of total revenues for the year (see Figure A-1 on the next page). The remaining 37 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		Total %
	2010	2009	Change
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,472,524	\$ 1,179,723	24.82%
Operating Grants and Contributions	5,032,351	2,561,158	96.49%
Capital Grants and Contributions	158,437	172,906	-8.37%
<u>General Revenues</u>			
Property Taxes	1,976,100	1,719,601	14.92%
Unrestricted State Aid	9,442,209	10,274,339	-8.10%
Investment Earnings	51,600	104,012	-50.39%
Other	91,427	41,572	119.92%
Total Revenues	<u>18,224,648</u>	<u>16,053,311</u>	
Expenses			
Administration	816,618	650,341	25.57%
District Support Services	436,660	365,581	19.44%
Regular Instruction	7,764,642	6,767,865	14.73%
Vocational Education Instruction	211,208	145,153	45.51%
Special Education Instruction	2,215,455	1,788,480	23.87%
Instructional Support Services	623,241	857,451	-27.31%
Pupil Support Services	1,355,166	1,152,977	17.54%
Sites and Buildings	1,847,218	1,474,519	25.28%
Fiscal and Other Fixed Cost Programs	53,773	56,336	-4.55%
Food Service	925,755	831,226	11.37%
Community Service	739,875	648,276	14.13%
Interest and Fiscal Charges on Long-Term Liabilities	14,592	19,881	-26.60%
Total Expenses	<u>17,004,203</u>	<u>14,758,086</u>	15.22%
Increase in Net Assets	<u>1,220,445</u>	<u>1,295,225</u>	
Ending Net Assets	<u>\$ 8,959,276</u>	<u>\$ 9,280,296</u>	

The total cost of all programs and services was \$17,004,203. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net assets \$1,220,445 over last year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was \$17,004,203.

- Some of the cost was paid by the users of the District's programs (\$1,472,524).
- The federal and state governments subsidized certain programs with grants and contributions of \$5,190,788.
- Most of the District's costs \$10,340,891, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,976,100 in property taxes and \$9,442,209 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$143,027 related to investment earnings and other general revenues.

Figure A-1 Sources of District's Revenues for Fiscal 2010

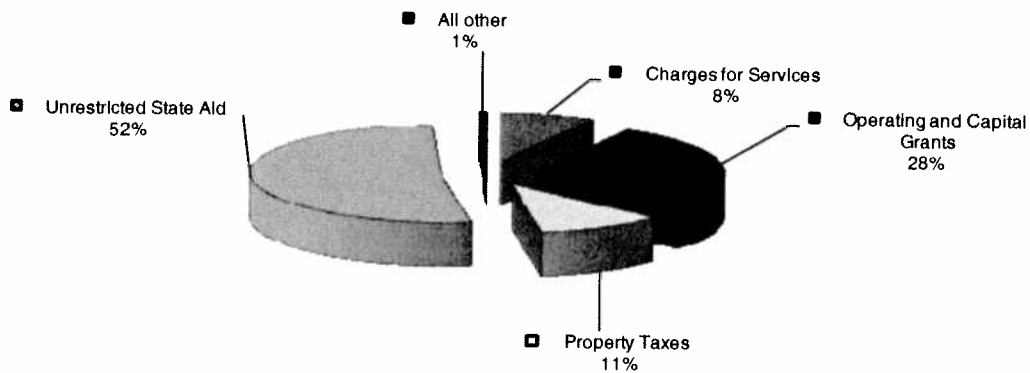
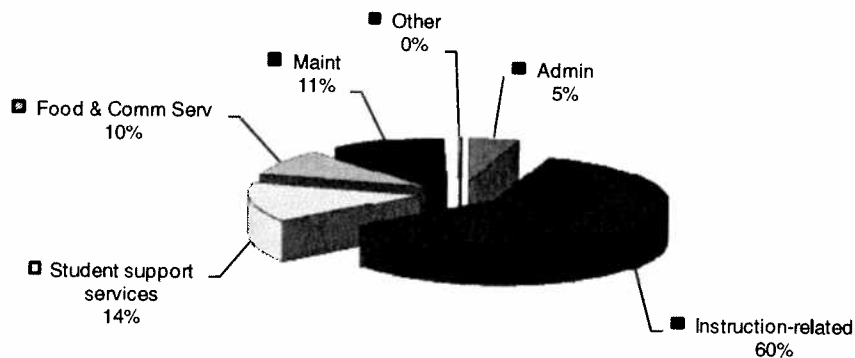


Figure A-2 District Expenses for Fiscal 2010



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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
	2010	2009		2010	2009	
Administration	\$ 816,618	\$ 650,341	25.57%	\$ 814,673	\$ 648,210	25.68%
District Support Services	436,660	365,581	19.44%	436,660	365,581	19.44%
Regular Instruction	7,764,642	6,767,865	14.73%	4,364,493	5,208,124	-16.20%
Vocational Education Instruction	211,208	145,153	45.51%	210,279	133,038	58.06%
Special Education Instruction	2,215,455	1,788,480	23.87%	579,547	1,073,614	-46.02%
Instructional Support Services	623,241	857,451	-27.31%	623,241	833,221	-25.20%
Pupil Support Services	1,355,166	1,152,977	17.54%	1,355,166	1,073,268	26.27%
Sites and Buildings	1,847,218	1,474,519	25.28%	1,835,776	1,274,013	44.09%
Fiscal and Other Fixed						
Cost Programs	53,773	56,336	-4.55%	17,159	56,336	-69.54%
Food Service	925,755	831,226	11.37%	(107,711)	(45,717)	135.60%
Community Service	739,875	648,276	14.13%	197,016	204,730	-3.77%
Interest and Fiscal Charges on						
Long-Term Liabilities	14,592	19,881	-26.60%	14,592	19,881	-26.60%
Total	\$ 17,004,203	\$ 14,758,086	15.22%	\$ 10,340,891	\$ 10,844,299	-4.64%

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 \$6,543,371 significantly improved over Glencoe-Silver Lake Public Schools' last year's ending fund balance of \$4,996,187.

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 8 years.

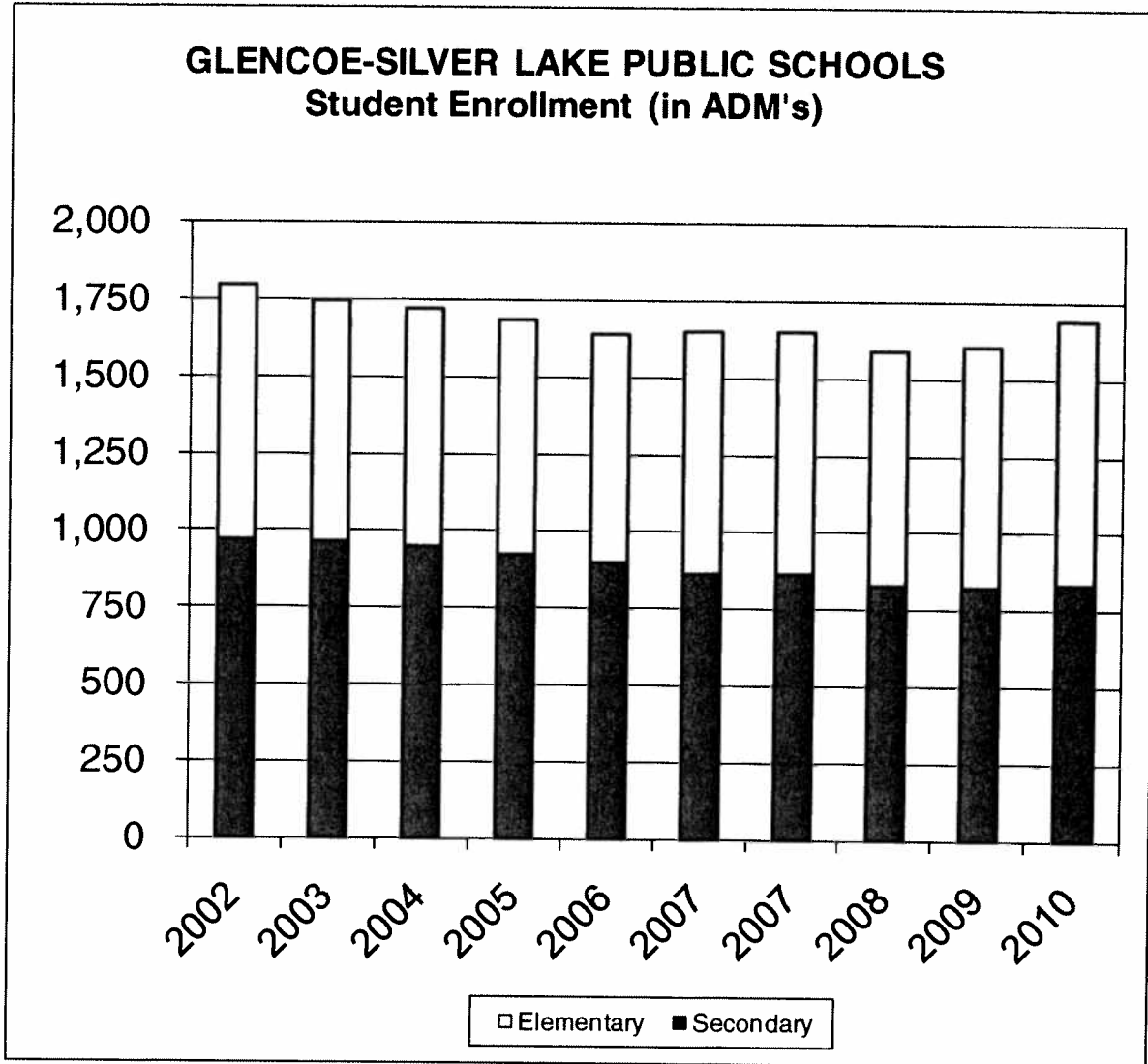
Table A-4
Student Enrollment (Average Daily Membership)

	2003	2004	2005	2006	2007	2008	2009	2010
Pre-K & KH	23	30	29	29	28	22	30	32
Reg K, Pre-K & KH	103	84	94	89	104	100	95	109
Elementary	657	659	641	624	652	640	658	718
Secondary	964	952	925	900	868	832	825	837
Total Students for Aid	1,747	1,725	1,689	1,642	1,652	1,594	1,608	1,696
Percent change	-2.79%	-1.31%	-2.04%	-2.80%	0.61%	-3.48%	0.87%	5.46%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010**

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, 2010	June 30, 2009	Increase (Decrease)	Percent
Local Sources				
Property Taxes	\$ 1,859,114	\$ 1,608,598	\$ 250,516	15.6%
Earnings on Investments	50,362	101,412	(51,050)	-50.3%
Other	656,899	570,585	86,314	15.1%
State Sources	12,152,543	11,894,863	257,680	2.2%
Federal Sources	1,781,238	403,343	1,377,895	341.6%
Total General Fund Revenue	<u>\$ 16,500,156</u>	<u>\$ 14,578,801</u>	<u>\$ 1,921,355</u>	13.2%

Revenues from state and federal sources totaled \$13,933,781, a net increase of \$1,635,575. Total General Fund revenues increased by \$1,921,355, or 13.2%, 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 \$257,680 increase in state sources for fiscal 2010 is attributable to various areas of state funding categories. The amount of interest earned decreased by 50.3% due to the state of the economy and investment earnings. The 15.1% (\$86,314) increase in other funding sources is mainly due to factors pertaining to Microsoft reimbursements to the district. The additional revenue in federal sources was attributed to the increase in the Federal Stimulus Funds (AARA Funds) for Stabilization, Special Education and Title I.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures.

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 7,911,331	\$ 7,081,127	\$ 830,204	11.7%
Employee Benefits	2,316,984	2,051,273	265,711	13.0%
Purchased Services	3,267,107	2,741,991	525,116	19.2%
Supplies and Materials	743,685	582,209	161,476	27.7%
Capital Expenditures	914,949	491,490	423,459	86.2%
Other Expenditures	130,420	241,600	(111,180)	-46.0%
Total Expenditures	<u>\$ 15,284,476</u>	<u>\$ 13,189,690</u>	<u>\$ 2,094,786</u>	15.9%

Total General Fund expenditures increased \$2,094,786 or 15.9% from the previous year.

The biggest increase in expenditures came in the area of staffing. Because of the McLeod West consolidation, there were six staff members from McLeod West Schools that joined the GSL staff. Due to enrollment increases, additional staff was also hired to accommodate the additional students along with salary increases. There was an increase in Special Education staff that was hired to meet the needs of students with Individual Education Plans.

Purchased services also increased substantially for a number of reasons. Again, due to the consolidation additional bus routes were added which contributed to additional costs. The district contracted with 4.0 for grounds services to improve the quality of the maintenance of our grounds and athletic complex. Additional services were utilized in the area of Title One which included SES – Supplemental Educational Services which the district was required to do because of our AYP status. Remodeling of a special education classroom also took place at the high school that was funding as a purchase service through our federal special education funding.

Capital expenditures also increased due to a number of factors. Additional textbooks were needed due to the increase of 90 students. A large amount was dedicated to new textbooks in the areas of a new science curriculum at the Elementary levels and updated curriculum in English at the High School. Additional money was also spent in Technology in the purchase of additional interactive boards and computers in the computer labs and in building and facility upgrades. The consolidation revenue was applied towards the development of a new road entrance to the athletic complex and the remodeling of two classrooms at the Lakeside campus. A window replacement project was also completed at Lakeside along with some ceilings and dehumidification systems.

The total fund balance of the General Fund increased to \$5,724,025 at June 30, 2010 compared to Glencoe-Silver Lake Public Schools' General Fund fund balance of \$4,863,198 at June 30, 2009, and \$3,461,796 on June 30, 2008. 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 2009 the fund balance policy was revised by the school board. 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 fund balance policy is to be reviewed annually following the audit.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

GENERAL FUND (CONTINUED)

The June 30th, 2010 ending unreserved/undesignated general fund balance of \$4,777,536 is at 31.3% 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
- 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 2010, General Fund revenues were over budgeted levels by \$970,989 and General Fund expenditures were over budget by \$128,870. Although many areas showed the effects of the District's conservative spending policies, a few areas made up much of the expenditure fluctuation.

- Sites and buildings purchased services below budget by \$124,945. A higher inflationary estimation was used for fuel and utility costs compared to actual expenditures.
- Special education costs were below budget by \$336,189 due to conservative budgeting. The placement of special education students is consistently an unknown variable when budgeting expenses. With the shifting of special education expenses between state funded, federal funded and federal AARA funds proved to be an extremely difficult budgeting task.
- Finally, salaries and related benefits of \$204,000 which were included in the fiscal and other fixed cost programs budget were conservative estimates that did not occur. An additional change that occurred was that the field house expenditure were moved to fund 4 and the budget did not correlate to that transfer.

OTHER MAJOR FUNDS

FOOD SERVICE FUND

The Food Service Fund experienced an increase of \$49,859 leaving the fund balance at \$102,329. The 2009-2010 school year was the second 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. During the months of April and May of 2010, Chartwell's worked with the district to provide free breakfast on testing days for any students that were taking the State MCA tests or the NWEA tests. This proved to be very beneficial to those students. Now that the food service fund has ended with a healthy fund balance, the district will work at replacing some badly worn equipment.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

COMMUNITY SERVICE

The Community Service Fund fund balance increased from Glencoe-Silver Lake Public Schools' General Fund fund balance of \$80,519 to \$98,463 at June 30, 2010. 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 this 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 2010, the District had invested \$5,241,543 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 \$338,184.

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

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Land	\$ 130,000	\$ 130,003	0.0%
Land Improvements	142,233	142,233	0.0%
Buildings and Improvements	9,051,783	8,974,283	0.9%
Equipment	3,346,278	4,225,005	-20.8%
Less: Accumulated Depreciation	<u>(7,428,751)</u>	<u>(8,268,423)</u>	-10.2%
Total	<u><u>\$ 5,241,543</u></u>	<u><u>\$ 5,203,101</u></u>	0.7%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year end, the District had \$2,838,467 in general obligation bonds and capital leases, as shown in Table A-8. The District also had \$692,282 in severance benefits payable and \$102,174 in other post employment benefits payable at June 30, 2010. (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**

	2010	2009	Percentage Change
General Obligation Bonds	\$ 2,585,000	\$ -	N/A
Net Bond Premium and Discount	24,482	-	N/A
Obligations Under Capital Leases	228,985	57,589	297.6%
Other Post Employment Benefits Payable	102,174	65,126	56.9%
Severance Benefits Payable	692,282	569,874	21.5%
Total	\$ 3,632,923	\$ 692,589	424.5%
Long-Term Liabilities:			
Due Within One Year	\$ 722,228	\$ 53,099	
Due in More Than One Year	2,910,695	639,490	
	\$ 3,632,923	\$ 692,589	

The long-term liabilities include the newly established debt service account to record 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. Upon the completion of the audit it is recorded that \$618,554 remains in the McLeod West financials. This amount will be applied to the debt obligation and will be noted as a tax levy adjustment for those residents.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE

- One of the biggest challenges for the school district during the 2009-2010 school year and beyond is the economy, and the cash flow situation for the school district. Legislative actions have had huge impacts on school districts across the State. The first action that affected school districts is the payment shift from 90/10 to 73/27. This shift was put in place for the 2010 fiscal year and the 2011 fiscal year. In simple terms, this shift allows the state to borrow money from school districts for a short term by withholding a portion of their payments until the start of the next fiscal year. Projections are that the shift for subsequent years could drop as low as 60/40. This has a devastating impact for school districts to have enough cash available to pay their bills without having to borrow money. The second major impact for school districts this past year and for FY 2011 is M.S. Statue 127A.46. Under this statue, if the Commissioner of Minnesota Management and Budget determines that modifications in the state aid payment schedule to school districts would reduce the need for state short-term borrowing, the state must first use its authority to delay state aid payments to school districts to the maximum extent allowable before engaging in state short term borrowing. For FY10, the delay of payments to GSL was \$1,604,934. This amount was withheld from the March and April state aid payments and was repaid on May 30th, 2010. For FY11, current year state aid payments are being withheld from September through December in the amount of \$1,144,222 and are scheduled to be paid back on May 30th, 2011. These projections could be altered throughout the year depending on the cash flow needs of the State. At this point, GSL has not had to pursue short-term borrowing to meet our cash flow needs. We have been financially stable and have met out expenditure obligations. This is an area that needs to be closely monitored and as the State withholds more and more money there is a chance the district will have to look at borrowing money.
- 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 2009-2010 increased by 5.5% at the end of the school year compared to the 2009 year end. The enrollment continues to remain fairly stable and higher than originally anticipated. 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. We projected that this would happen at the senior high level because those students had already been attending GFW for the 2008-2009 school year. We do project over the next few years, the number of students that attend GFW will decline and we will see our enrollment increase. The greatest impact for GSL was the number of students that enrolled from McLeod West at the elementary level.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Another large impact for the district for the 2009-2010 school year and the upcoming years was the joint consolidation effort between the McLeod West School District, the Buffalo-Lake Hector School District and the GFW School District. The consolidation effort consisted of splitting the McLeod West District into 3 sections with a section being assigned to each of the neighboring districts. This consolidation election was held in May of 2009 and was successfully passed in all four districts. The Commissioner of Education assigned all hard and soft assets to the GSL district as well as being assigned the custodian for all fiscal responsibilities. The consolidation was effective July 1, 2009. The GSL School gained 285 resident students which will have a large impact in the operating levy referendum. Students from the McLeod West district will still have the open enrollment option, so the number of new students that will actually attend the district is still difficult to predict. Because of the increase of property base and resident students the GSL levy will change dramatically beginning with the Pay 2010 levy. The McLeod West District was able to sell bonds for 5 years to pay off their existing debt. This debt obligation will only be paid off by the McLeod West taxpayers and will not be taxed to the GSL residents.
- As part of the consolidation the GSL District inherited the Brownton School Building. The GSL School did not utilize the Brownton building for an educational facility. The School Board sold the Brownton building and surrounding property to the City of Brownton in October of 2010 for \$10,000. The residents of Brownton were actively pursuing the possibility of a charter school for grades K-6. As of June 30, 2010, a charter school has not been established but there is still "talk" of that possibility. This would have an effect on the elementary enrollment.
- 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 board is looking at possibly running an election in April of 2011 to seek the voter's approval or not on pursuing selling bonds to proceed with a building project. At this time the project being pursued would be to close the Helen Baker facility, remodel and add on to the Lincoln and High School facility. With the exception of the McLeod West debt, the district currently has no debt. With low borrowing rates and contractors hungry for work this would be an opportune time to proceed with the project. The economy is slowly starting to recover from the recession and the hope is that the local tax payers would see a low tax impact from this project while at the same time helping students.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Because of the positive fund balance in both unreserved 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. With the additional consolidation revenue received by the district, we were able to complete an additional road/parking lot area to our high school athletic complex along with remodeling a storage space at Lakeside into two classrooms. A high school special education classroom was also remodeled to meet the needs of the students in those programs. 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.
- The 2009 Legislative Session was the basis for a two-year funding package that resulted in no new funds for school districts. The 2010 Legislative Session was also a session that showed no substantial changes to school funding. Because of the Recession and the State budget shortfall, this proved to be an extremely frustrating legislative session. The legislators did not reach an agreement for the K-12 Omnibus Bill, and therefore the Governor did not allow for a special session and used his unallotment authority. The Federal Government enacted the American Recovery and Reinvestment Act or AARA funds. What these funds did is replace the cuts that were made at the State level with Federal dollars. The Governor cut funds to School Districts by 8.6% and districts were then allowed to apply to use the AARA Stabilization Funds to replace what was cut. Seeing a net of zero to their funding level. This will be effective for FY10 only. Districts had to apply for these funds through the Minnesota Department of Education. The AARA funds also affected the areas of Special Education and the Title Programs. The District will see an increase in both of those reserved areas. The allotment of special education dollars was a substantial amount that allowed the district to reclassify benefits for special education staff to use federal dollars to help defray those cost. Normally, under state special education funding, employee benefits are not an allowable reimbursable expense. The Title AARA funds had more restrictions applied. As a district we are in AYP status which means the district is not making adequate yearly progress in our student achievement and test scores. Because of this, 20% of the Title AARA funds, had to be reserved solely for the purpose of offering SES (Supplemental Educational Services) to those students that qualify for educational benefits under the free and reduced lunch guidelines.

The Governor also removed the mandated 2% reserve for staff development for FY 10 and FY11. This will allow districts the flexibility of using those funds to become available as unreserved funds. The GSL district has maintained the use of the majority of those funds for staff development activities and staff trainings. Training was also provided for the implementation of the RTI (Response to Intervention) and the PBIS (Positive Behavioral Intervention Strategies') programs. RTI is geared towards the academic development of students and PBIS if focused on behavior issues of students. Both of these programs have had a positive influence on student behavior and achievement. Both programs are geared towards the elementary level but are capable of being utilized at the Junior High level as well.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- An important factor driving the academic direction of the school district is the fact that the district is in AYP status as previously mentioned. 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 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 will be hired for the 2010-2011 school year to accommodate the need for assistance with ESL (English Second Language) students. Additional paraprofessionals will also be hired to assist with the Kindergarten classes to alleviate the large class sizes and to provide some assistance with core subject areas.
- A new contract was negotiated for the 2009-2010 and 2010-2011 fiscal years for Education Minnesota - Glencoe-Silver Lake. The contract settlement was reached on June 30, 2009. The early settlement been a very positive factor for both sides as far as moving forward as a district. The GSL settlement was one of the first in the State to be reported. With the state of the economy and many surrounding districts struggling financially and struggling to reach a settlement we have been very fortunate to have this completed prior to the start of the new school year. Contract negotiations will need to be pursued for the 2011-2012 and 2012-2013 school years. Negotiations will prove to be challenging with the projection of no additional revenue from the state or local tax levy.
- Contract settlements were finally reached in March of 2009 for the School Services Employees Local 284 whose contract expired on June 30, 2007. The settlement included contracts for 2007-2009 and 2009-2011. The delay in the settlement of the contracts had been due to contract language regarding the sub-contracting of school bus drivers. Contract negotiations will need to be pursued for the 2011-2012 and 2012-2013 school years. Negotiations will prove to be challenging with the projection of no additional revenue from the state or local tax levy.
- Unsettled contracts that expired June 30, 2010 include the Business Manager, Director of Technology, Desktop Support Specialist, Athletic Director and the District Office Staff.
- All contracts were settled within the financial means of the budget.
- GASB 45 requirements. The new Governmental Accounting Standards Statements 43 and 45 pertains to other post employment benefits (OPEB). Glencoe-Silver Lake Public Schools had to implement this requirement by June 30, 2009. This GASB includes recognizing the districts liability for benefits on an accrual basis versus a pay as you go format. The Glencoe-Silver Lake Public Schools has completed this process of having an actuarial study completed. This Actuarial Study was completed by Hildi Incorporated. The annual OPEB cost was determined to be \$153,525. Funding can be completed through a bond levy process, line item budgeting or pay as you go. Or as the liability occurs. As of June 30, 2010 the district has established an internal service fund and transferred \$800,000 into the fund to starting funding the OPEB liability. By utilizing the internal service fund to earmark the liability, the district still has the flexibility of utilizing those dollars if a financial situation should arise that justifies using some of those dollars.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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.
- GASB 54. The implementation of GASB 54 which is effective June 30th, 2011 or fiscal year FY11. This requirement will pose new challenges to the school board and business office regarding new fund balance classifications and fund balance policies that are compliant with GASB 54. The new policy has to establish the order of expenditures of funds by classification as they become available and the process of committing funds.
- The district was able to move forward for fiscal year 2011 with offering free breakfast to all students K-12 for the full school year. The Business Manager worked with Chartwell's to research the feasibility of this offering. It was expressed by the Principals that this would be a great offering for our students to be able to give them a nutritional breakfast to begin their day. After reviewing the potential outcomes, the Business Manager recommended proceeding with the program. Between revenue reimbursements from the state and federal lunch program the program is estimated to break even and to also have the potential that some profit towards the food service program will be made. Because the food service fund has ended with such a healthy fund balance and because we are limited in the amount of what that balance can be, the district will start to replace some badly worn equipment and review what additional offerings can be made in the food service program.
- The consolidation with McLeod West has helped make the Glencoe-Silver Lake School stronger and has helped in stabilizing the enrollment which will aid in future funding and planning for the district. The district has proven to gain financial stability and will be able to focus in educational programs while staying fiscally responsible.
- 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. With the consolidation process complete, Glencoe-Silver Lake now serves the communities of Glencoe, Silver Lake, Plato, New Auburn, Biscay, Sumter and Brownton.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- 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, 2010**

	Governmental Activities 2010
ASSETS	
Cash and Investments	\$ 5,424,660
Receivables	
Property Taxes	1,227,470
Other Governments	3,957,886
Other	49,518
Prepaid Items	2,738
Inventories	26,839
Capital Assets	
Land and Construction in Progress	130,000
Other Capital Assets, Net of Depreciation	5,111,543
Total Assets	<u>15,930,654</u>
LIABILITIES	
Salaries and Compensated Absences Payable	1,035,546
Accounts and Contracts Payable	111,797
Accrued Interest	15,613
Due to Other Governmental Units	49,008
Deferred Revenue	
Property Taxes	2,091,466
Local Sources	35,025
Long-Term Liabilities	
Portion Due Within One Year	722,228
Portion Due in More Than One Year	2,910,695
Total Liabilities	<u>6,971,378</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,012,558
Restricted for	
General Fund Operating Capital Purposes	829,578
General Fund State-Mandated Reserves	93,296
Food Service	102,329
Community Service	98,463
Unrestricted	<u>2,823,052</u>
Total Net Assets	<u><u>\$ 8,959,276</u></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, 2010**

2010

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 816,618	\$ 1,945	\$ -
District Support Services	436,660	-	-
Regular Instruction	7,764,642	488,216	2,760,297
Vocational Education Instruction	211,208	929	-
Special Education Instruction	2,215,455	33,147	1,602,761
Instructional Support Services	623,241	-	-
Pupil Support Services	1,355,166	-	-
Sites and Buildings	1,847,218	4,641	-
Fiscal and Other Fixed Cost Programs	53,773	-	36,614
Food Service	925,755	527,437	506,029
Community Service	739,875	416,209	126,650
Interest and Fiscal Charges on Long-Term Liabilities	14,592	-	-
Total School District	<u>\$ 17,004,203</u>	<u>\$ 1,472,524</u>	<u>\$ 5,032,351</u>

General Revenues

Property Taxes Levied for
General Purposes
Community 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.

	Net (Expense) Revenue and Changes In Net Assets
Capital Grants and Contributions	Total Governmental Activities
\$ -	\$ (814,673)
-	(436,660)
151,636	(4,364,493)
-	(210,279)
-	(579,547)
-	(623,241)
-	(1,355,166)
6,801	(1,835,776)
-	(17,159)
-	107,711
-	(197,016)
-	(14,592)
<u>\$ 158,437</u>	<u>(10,340,891)</u>

1,848,757
127,343
9,442,209
51,600
91,427
<u>11,561,336</u>
1,220,445
7,738,831
<u>\$ 8,959,276</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 3,704,341	\$ 80,858	\$ 120,415
Receivables			
Current Property Taxes	994,028	-	88,456
Delinquent Property Taxes	21,400	-	1,498
Due from Other Minnesota School Districts	258,437	-	-
Due from Minnesota Department of Education	3,064,523	1,703	40,813
Due from Federal through Minnesota Department of Education	578,359	14,044	7
Other Receivables	32,088	2,023	15,407
Prepaid Items	2,660	-	78
Inventory	13,704	13,135	-
Total Assets	<u>\$ 8,669,540</u>	<u>\$ 111,763</u>	<u>\$ 266,674</u>
LIABILITIES AND FUND BALANCE (DEFICIT)			
Liabilities			
Salaries and Compensated Absences Payable	\$ 555,593	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	479,953	-	-
Accounts and Contracts Payable	111,797	-	-
Due to Other Governmental Units	49,008	-	-
Deferred Revenue			
Property Taxes Levied for Subsequent Year	1,707,764	-	161,122
Delinquent Property Taxes	21,400	-	1,498
Local Sources	20,000	9,434	5,591
Total Liabilities	<u>2,945,515</u>	<u>9,434</u>	<u>168,211</u>
Fund Balance (Deficit)			
Reserved for			
Staff Development	92,907	-	-
Deferred Maintenance	389	-	-
Health and Safety	(37,409)	-	-
Operating Capital	829,578	-	-
Community Education Programs	-	-	48,400
Early Childhood and Family Education Programs	-	-	15,499
School Readiness	-	-	4,836
Unreserved			
Designated	61,024	-	-
Undesignated, Reported In			
General Fund	4,777,536	-	-
Special Revenue Funds	-	102,329	29,728
Debt Service Fund	-	-	-
Total Fund Balance (Deficit)	<u>5,724,025</u>	<u>102,329</u>	<u>98,463</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 8,669,540</u>	<u>\$ 111,763</u>	<u>\$ 266,674</u>

See accompanying Notes to Basic Financial Statements.

Funds	Total Governmental Funds 2010
Debt Service	
\$ 719,046	\$ 4,624,660
122,088	1,204,572
-	22,898
-	258,437
-	3,107,039
-	592,410
-	49,518
-	2,738
-	26,839
<u>\$ 841,134</u>	<u>\$ 9,889,111</u>
\$ -	\$ 555,593
-	479,953
-	111,797
-	49,008
222,580	2,091,466
-	22,898
-	35,025
<u>222,580</u>	<u>3,345,740</u>
-	92,907
-	389
-	(37,409)
-	829,578
-	48,400
-	15,499
-	4,836
-	61,024
-	4,777,536
-	132,057
618,554	618,554
<u>618,554</u>	<u>6,543,371</u>
<u>\$ 841,134</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, 2010**

	<u>2010</u>
Total Fund Balance for Governmental Funds	\$ 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
Land Improvements, Net of Accumulated Depreciation	98,250
Buildings and Improvements, Net of Accumulated Depreciation	3,873,771
Equipment, Net of Accumulated Depreciation	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.	22,898
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(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:	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	(2,585,000)
Unamortized Premiums	(24,482)
Obligations Under Capital Leases	(228,985)
Severance Benefits Payable	(692,282)
Other Post Employment Benefits Payable	(102,174)
Total Net Assets of Governmental Activities	<u>\$ 8,959,276</u>

**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, 2010**

		Major	
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 1,859,114	\$ -	\$ 128,382
Earnings on Investments	50,362	737	501
Other	656,899	535,794	448,781
State Sources	12,152,543	41,174	147,304
Federal Sources	1,781,238	388,529	408
Total Revenues	<u>16,500,156</u>	<u>966,234</u>	<u>725,376</u>
EXPENDITURES			
Current			
Administration	798,799	-	-
District Support Services	357,183	-	-
Regular Instruction	7,186,361	-	-
Vocational Education Instruction	171,306	-	-
Special Education Instruction	2,194,373	-	-
Instructional Support Services	506,071	-	-
Pupil Support Services	1,353,908	-	-
Sites and Buildings	1,726,809	-	-
Fiscal and Other Fixed Cost Programs	53,773	-	-
Food Service	-	916,376	-
Community Service	-	-	690,154
Capital Outlay	914,949	-	49,760
Debt Service			
Principal	16,719	-	-
Interest and Fiscal Charges	4,225	-	-
Total Expenditures	<u>15,284,476</u>	<u>916,376</u>	<u>739,914</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	1,215,680	49,858	(14,538)
OTHER FINANCING SOURCES (USES)			
Capital Lease Issuance	217,920	-	-
Sale of Equipment Proceeds	21,420	-	-
Judgments for School Districts	8,401	-	-
Insurance Recovery Proceeds	35,877	-	-
Transfers In	-	-	-
Transfers Out	(1,418,554)	-	-
Total Other Financing Sources (Uses)	<u>(1,134,936)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	80,744	49,858	(14,538)
Fund Balance - Beginning	5,643,281	52,471	113,001
Fund Balance - Ending	<u>\$ 5,724,025</u>	<u>\$ 102,329</u>	<u>\$ 98,463</u>

See accompanying Notes to Basic Financial Statements.

<u>Funds</u>	<u>Total</u>
<u>Debt</u>	<u>Governmental</u>
<u>Service</u>	<u>Funds</u>
	<u>2010</u>
\$ -	\$ 1,987,496
-	51,600
-	1,641,474
-	12,341,021
-	2,170,175
-	<u>18,191,766</u>
-	798,799
-	357,183
-	7,186,361
-	171,306
-	2,194,373
-	506,071
-	1,353,908
-	1,726,809
-	53,773
-	916,376
-	690,154
-	964,709
-	16,719
-	4,225
-	<u>16,940,766</u>
-	1,251,000
-	217,920
-	21,420
-	8,401
-	35,877
618,554	618,554
-	(1,418,554)
<u>618,554</u>	<u>(516,382)</u>
618,554	734,618
-	5,808,753
<u>\$ 618,554</u>	<u>\$ 6,543,371</u>

**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, 2010**

	<u>2010</u>
Net Change in Fund Balance-Total Governmental Funds	\$ 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	615,789
Loss on Disposal of Capital Assets	(217,743)
Proceeds from sales of capital assets	(21,420)
Depreciation Expense	(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	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:	
Change in Accrued Interest Expense - General Obligation Bonds	(15,613)
Amortization of Bond Premium	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.	(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).	(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.	800,000
Change in Net Assets of Governmental Activities	\$ 1,220,445

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, 2010**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources				
Property Taxes	\$ 1,753,372	\$ 1,800,838	\$ 1,859,114	\$ 58,276
Earnings on Investments	100,000	40,000	50,362	10,362
Other	411,228	428,628	656,899	228,271
State Sources	11,910,822	11,830,863	12,152,543	321,680
Federal Sources	282,611	1,428,838	1,781,238	352,400
Total Revenues	14,458,033	15,529,167	16,500,156	970,989
EXPENDITURES				
Current				
Administration	857,070	872,388	798,799	(73,589)
District Support Services	430,266	440,266	357,183	(83,083)
Elementary and Secondary				
Regular Instruction	6,587,945	6,978,786	7,186,361	207,575
Vocational Education Instruction	154,449	186,553	171,306	(15,247)
Special Education Instruction	2,361,654	2,311,043	2,194,373	(116,670)
Instructional Support Services	678,735	532,038	506,071	(25,967)
Pupil Support Services	1,291,544	1,472,784	1,353,908	(118,876)
Sites and Buildings	1,512,116	1,591,516	1,726,809	135,293
Fiscal and Other Fixed Cost Programs	127,400	127,400	53,773	(73,627)
Capital Outlay	479,760	631,460	914,949	283,489
Debt Service				
Principal	9,268	9,268	16,719	7,451
Interest and Fiscal Charges	2,104	2,104	4,225	2,121
Total Expenditures	14,492,311	15,155,606	15,284,476	128,870
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(34,278)	373,561	1,215,680	842,119
OTHER FINANCING SOURCES				
Capital Lease Proceeds	-	-	217,920	217,920
Sale of Equipment Proceeds	-	21,200	21,420	220
Judgments for School Districts	-	2,500	8,401	5,901
Insurance Recovery Proceeds	-	-	35,877	35,877
Transfers Out	-	-	(1,418,554)	(1,418,554)
Total Other Financing Sources	-	23,700	(1,134,936)	(1,158,636)
Net Change in Fund Balance	\$ (34,278)	\$ 397,261	80,744	\$ (316,517)
FUND BALANCE				
Beginning of Year			5,643,281	
End of Year			\$ 5,724,025	

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, 2010**

	<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				
Earnings on Investments	\$ -	\$ -	\$ 737	\$ 737
Other - Primarily Meal Sales	531,126	531,126	535,794	4,668
State Sources	38,076	38,076	41,174	3,098
Federal Sources	332,263	332,263	388,529	56,266
Total Revenues	<u>901,465</u>	<u>901,465</u>	<u>966,234</u>	<u>64,769</u>
EXPENDITURES				
Current				
Food Service	895,565	895,565	916,376	20,811
Capital Outlay	2,500	2,500	-	(2,500)
Total Expenditures	<u>898,065</u>	<u>898,065</u>	<u>916,376</u>	<u>18,311</u>
Excess of Revenues Over Expenditures	<u>\$ 3,400</u>	<u>\$ 3,400</u>	49,858	<u>\$ 46,458</u>
FUND BALANCE				
Beginning of Year			<u>52,471</u>	
End of Year			<u>\$ 102,329</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, 2010**

	<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	\$ 100,209	\$ 143,606	\$ 128,382	\$ (15,224)
Earnings on Investments	-	-	501	501
Other - Primarily Tuition and Fees	311,005	352,423	448,781	96,358
State Sources	168,870	149,853	147,304	(2,549)
Federal Sources	300	300	408	108
Total Revenues	<u>580,384</u>	<u>646,182</u>	<u>725,376</u>	<u>79,194</u>
EXPENDITURES				
Current				
Community Service	601,478	597,214	690,154	92,940
Capital Outlay	<u>7,500</u>	<u>21,100</u>	<u>49,760</u>	<u>28,660</u>
Total Expenditures	<u>608,978</u>	<u>618,314</u>	<u>739,914</u>	<u>121,600</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (28,594)</u>	<u>\$ 27,868</u>	(14,538)	<u>\$ (42,406)</u>
FUND BALANCE				
Beginning of Year			<u>113,001</u>	
End of Year			<u>\$ 98,463</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, 2010**

	Governmental Activities - Internal Service Funds <u>2010</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 800,000
Total Assets	<u>\$ 800,000</u>
NET ASSETS	
Restricted for OPEB	\$ 800,000
Total Net Assets	<u>\$ 800,000</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	Governmental Activities - Internal Service Funds <u>2010</u>
TRANSFER IN	
Change in Net Assets	<u>\$ 800,000</u> 800,000
Total Net Assets - Beginning	-
Total Net Assets - Ending	<u>\$ 800,000</u>

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, 2010**

	Governmental Activities - Internal Service Funds
	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer In - OPEB	\$ 800,000
Net Cash Provided by Noncapital Financing Activities	<hr/> 800,000
Cash and Cash Equivalents - Beginning	<hr/> -
Cash and Cash Equivalents - Ending	<hr/> <hr/> \$ 800,000
Displayed on Combining Statement of Net Assets as:	
Cash and Investments	<hr/> <hr/> \$ 800,000

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and Investments	\$ 1,017,109
Total Assets	<u>\$ 1,017,109</u>
NET ASSETS	
Restricted for Scholarships	\$ 1,017,109
Total Net Assets	<u>\$ 1,017,109</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2010**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and Donations	\$ 2,486
Earnings on Investments	2,815
Total Additions	<u>5,301</u>
DEDUCTIONS	
Scholarships Awarded	<u>18,033</u>
Total Deductions	<u>18,033</u>
Change in Net Assets	(12,732)
Net Assets - Beginning of Year	1,029,841
Net Assets - End of Year	<u>\$ 1,017,109</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, 2010**

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.

In May 2009, the voters of Independent School District No. 2859, Glencoe-Silver Lake, Independent School District No. 2365, Gibbon-Fairfax-Winthrop, Independent School District No. 2159, Buffalo Lake-Hector, and Independent School District No. 2887, McLeod West passed a resolution to consolidate McLeod West School District with Glencoe-Silver Lake Public Schools, Gibbon-Fairfax-Winthrop Public Schools and Buffalo Lake-Hector Public Schools. The combination was effective July 1, 2009. The Commissioner of Education assigned all hard and soft assets, as well as all liabilities, to Independent School District No. 2859, Glencoe-Silver Lake. The District was also assigned as the custodian for all fiscal responsibilities. This had the effect of decreasing beginning net assets by \$1,541,463. This also had the effect of increasing fund balances by \$812,568.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The 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.

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, 2010**

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, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

The District applies only those applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 in accounting and reporting for proprietary operations.

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.

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.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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, 2010**

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."

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 which is frozen at \$152,280 for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

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, 2010, 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.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums 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 teachers, employed before September 1, 1995, who are at least 55 years of age or have completed twenty years of professional public school teaching service in the appropriate unit in the School District should be eligible for severance pay. Full-time teachers receive a retirement benefit equal to 100 sick days of pay at the individual's daily rate of pay in effect on the date of retirement minus the total amount of school district's matching contribution to the teacher's 403(b) annuity account.

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.

During fiscal year 2010, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$83,564. At June 30, 2010, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

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, at June 30, 2010.

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

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

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. The District participates in the Minnesota Board of Education Association Insurance Trust (MSBA Trust), a public entity risk pool for its workers' compensation insurance. The MSBA Trust operates as a common risk management and insurance program for approximately 375 member districts. The District pays an annual premium to the MSBA Trust for its insurance coverage. The MSBA Trust agreement provides that the MSBA Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The reinsurance point is \$100,000 per occurrence for medical and hospitalization.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1,123,666 of restricted net assets, all of which is restricted by enabling legislation.

NOTE 2 STEWARSHIP AND ACCOUNTABILITY

A. Excess of Expenditures over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2010:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 15,155,606	\$ 15,284,476	\$ 128,870
Special Revenue Funds			
Food Service Fund	\$ 898,065	\$ 916,376	\$ 18,311
Community Service Fund	\$ 618,314	\$ 739,914	\$ 121,600

B. Interfund Transfers

The District had the following interfund transfers at June 30, 2010:

	Transfer Out:
	General
	Fund
Transfers In:	
Debt Service Fund	\$ 618,554
Proprietary Fund	800,000
	<u>\$ 1,418,554</u>

The transfer to the Debt Service Fund was made to move the McLeod West excess bond proceeds for future levy reductions to the three remaining districts. The transfer to the Proprietary Fund was to set aside money for future payments of other postemployment benefits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010 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, 2010**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B Investments (Continued)

At June 30, 2010 the District had the following investments.

	Amortized Cost
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 1,005,377

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.

Interest Rate Risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Credit Risk

The MSDLAF+ pool is rated AAAM by Standard & Poor's.

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

Deposits	\$ 6,236,114
MSDLAF+	1,005,377
Cash on Hand	278
	<hr/>
Total Pooled Cash and Investments	\$ 7,241,769

These amounts are presented in the financial statements as follows:

Cash and Investments - Governmental Balance Sheet	\$ 5,424,660
Cash and Investments - Statement of Fiduciary Net Assets	1,017,109
Cash and Investments - Statement of Proprietary Fund Net Assets	800,000
Total Cash and Investments	<hr/> <hr/> \$ 7,241,769

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 130,003	\$ -	\$ (3)	\$ 130,000
Total Capital Assets, Not Being Depreciated	130,003	-	(3)	130,000
Capital Assets, Being Depreciated				
Land Improvements	142,233	-	-	142,233
Buildings and Improvements	8,974,283	87,500	(10,000)	9,051,783
Equipment	4,225,005	528,289	(1,407,016)	3,346,278
Total Capital Assets, Being Depreciated	13,341,521	615,789	(1,417,016)	12,540,294
Accumulated Depreciation for				
Land Improvements	(37,091)	(6,892)	-	(43,983)
Buildings and Improvements	(5,010,437)	(167,575)	-	(5,178,012)
Equipment	(3,220,895)	(163,717)	1,177,856	(2,206,756)
Total Accumulated Depreciation	(8,268,423)	(338,184)	1,177,856	(7,428,751)
Total Capital Assets, Being Depreciated, Net	5,073,098	277,605	(239,160)	5,111,543
Governmental Activities Capital Assets, Net	<u>\$ 5,203,101</u>	<u>\$ 277,605</u>	<u>\$ (239,163)</u>	<u>\$ 5,241,543</u>

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

Governmental Activities	
Administration	\$ 150
Elementary and Secondary Regular Instruction	255,944
Special Education Instruction	725
Instructional Support Services	7,135
Pupil Support Services	5,938
Sites and Buildings	56,000
Food Service	9,379
Community Service	2,913
Total Depreciation Expense, Governmental Activities	<u>\$ 338,184</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2010:

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	\$ 480,000	\$ 2,585,000
Total General Obligation Bonds				480,000	2,585,000
Bond Premium - net				-	24,482
Capital Leases Payable				38,554	228,985
Other Postemployment Benefits Payable				102,174	102,174
Severance Benefits Payable				101,500	692,282
				<u>\$ 722,228</u>	<u>\$ 3,632,923</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
2011	\$ 480,000	\$ 68,855
2012	500,000	59,255
2013	520,000	48,255
2014	535,000	34,475
2015	550,000	18,425
	<u>\$ 2,585,000</u>	<u>\$ 229,265</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 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
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

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, 2010 is \$94,849.

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, 2010:

Year Ending June 30,	
2011	\$ 59,230
2012	59,229
2013	59,230
2014	59,230
2015	55,077
Total Minimum Lease Payments	291,996
Less Amounts Representing Interest	63,011
Present Value of Net Minimum Lease Payments	<u>\$ 228,985</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.

D. Changes in Long-Term Liabilities

	June 30, 2009	Net Additions	Retirements	June 30, 2010
Bonds Payable	\$ 2,585,000	\$ -	\$ -	\$ 2,585,000
Bond Premium	29,728	-	5,246	24,482
Lease Purchase Obligations	57,589	217,920	46,524	228,985
Other Postemployment Benefits Payable	65,126	152,545	115,497	102,174
Severance Benefits Payable	569,874	205,972	83,564	692,282
	<u>\$ 3,307,317</u>	<u>\$ 576,437</u>	<u>\$ 250,831</u>	<u>\$ 3,632,923</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 RESERVED FUND BALANCES

Certain portions of fund balance are reserved 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 following is a summary of the reserved fund balances for the governmental funds:

A. Reserved for Staff Development

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

B. Reserved for Deferred Maintenance

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

C. Reserved for Health and Safety

Reserved 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 reserve generates specific future levy authority.

D Reserved for Operating Capital

Reserved 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.

E. Reserved for Community Education Programs

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

F. Reserved for Early Childhood and Family Education Programs

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

G. Reserved for School Readiness

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

H. Designated Fund Balance

At June 30, 2010, the District has designated unreserved fund balance for consolidation issues.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 RETIREMENT 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.

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, 2010, 2009, and 2008 were \$355,908, \$319,088 and \$300,948, respectively, equal to the required contributions for each year as set by state statute.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

2. Funding Policy

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. 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.

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members are required to contribute 9.10% of their annual covered salary. PERF Coordinated Plan members are required to contribute 6.00% of their annual covered salary in 2010.

The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 7.00%, effective January 1, 2010. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2010, 2009, and 2008, were \$100,270, \$82,945 and \$75,844, 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, 2010, 2009 and 2008 are \$105,548, \$95,325 and \$92,245, respectively. The related employee contributions were \$245,122, \$225,526 and \$216,510 for the years ended June 30, 2010, 2009 and 2008, respectively.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 170 active participants and 28 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.

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 2010, the District contributed \$115,497 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	\$ 153,525
Interest on Net OPEB Obligation	2,931
Adjustment to Annual Required Contribution	(3,911)
Annual OPEB Cost (Expense)	<u>152,545</u>
Contributions Made	(115,497)
Increase in Net OPEB Obligation	<u>37,048</u>
Net OPEB Obligation - Beginning of Year	65,126
Net OPEB Obligation - End of Year	<u><u>\$ 102,174</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 2010:

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$1,349,866. The annual payroll for active employees covered by the plan in the actuarial valuation was \$6,249,711 for a ratio of UAAL to covered payroll of 21.6%.

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, 2007 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 9.0%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2010 was 28 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, 2010**

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.

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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, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>7/1/2007</u>	<u>\$ -</u>	<u>\$ 1,349,866</u>	<u>\$ 1,349,866</u>	<u>0.0%</u>	<u>\$ 6,249,711</u>	<u>21.6%</u>

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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, 2010, which collectively comprise Independent School District No. 2859's basic financial statements and have issued our report thereon dated November 3, 2010. 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 2010-1 and 2010-2 to be a material weakness

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs listed as item 2010-3 to be a significant deficiency.


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 November 3, 2010.

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
November 3, 2010

**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, 2010. 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, 2010, with the exception of the item listed as 2010-5 through 2010-9 on the following Schedule of Findings and Responses.

Internal Control Over Compliance

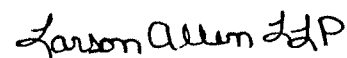
The management of Independent School District No. 2859 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Independent 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 is listed as item 2010-4 to be a material weakness.

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
November 3, 2010

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-2589-000	\$ 51,383
Total Non-Cash Assistance			\$ 51,383
Cash Assistance:			
School Breakfast Program	# 10.553	1-2589-000	53,159
National School Lunch Program	# 10.555	1-2589-000	277,332
After School Snack Program	# 10.555	1-2589-000	408
Special Milk Program for Children	10.558	1-2589-000	724
Total Cash Assistance			<u>331,623</u>
Total US Department of Agriculture			<u>383,006</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Cash Assistance:			
Title I, Part A	* 84.010	@	141,894
ARRA Title I, Part A	* 84.389	@	73,786
Title I, Part C - Migrant Education - Summer	84.011	@	67,475
Title IV - Safe & Drug Free Schools	84.186	@	6,476
Title II, Part A - Improving Teacher Quality	84.367	@	64,768
Title III - English Language Acq Grants	84.365	@	17,506
ARRA Stabilization Title VIII - Impact Aid	84.394	@	1,070,708
Pass-Through SW/WC Service Cooperative #991			
Cash Assistance:			
Special Education - Grants to States	& 84.027	@	62,654
ARRA Targeted Fund - IDEA Part B 611	& 84.391	@	287,628
ARRA Targeted Fund - IDEA Part B 619	& 84.392	@	16,690
Special Education - Preschool Incentive	& 84.173	@	408
Total Cash Assistance, US Department of Education			<u>1,809,993</u>
Total Federal Financial Assistance Expended			<u><u>\$ 2,192,999</u></u>
<p># - Child Nutrition Cluster & - Special Education Cluster * - Title I Cluster @ - Unknown Agency or Pass-Through Number</p>			

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, 2010**

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.

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, 2010, and have issued our report thereon dated November 3, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the 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 Local Government 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 2010-10.

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

LarsonAllen LLP

Austin, Minnesota
November 3, 2010

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**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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. Three significant deficiencies in internal control over financial reporting were disclosed by the audit of the basic financial statements. Two significant deficiencies are material weaknesses.
3. No instances of noncompliance material to the financial statements of Independent School District No. 2859 were disclosed during the audit.
4. One deficiency was disclosed during the audit of the major federal award programs. This deficiency is a material weaknesses.
5. The auditors' report on compliance for the major federal award programs for Independent School District No. 2859 expresses an unqualified opinion.
6. Five 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 Education:

Special Education Cluster:

Special Education – Grants to States	CFDA #84.027
Special Education – Preschool Incentive	CFDA #84.173
Special Education - ARRA Targeted Fund – Idea Part B611	CFDA #84.391
Special Education – ARRA Targeted Fund – Idea Part B 619	CFDA #84.392
ARRA Stabilization Title VIII – Impact Aid	CFDA #84.394

Title I Cluster:

Title I, Part A	CFDA #84.010
Title I, Part A – ARRA	CFDA #84.389

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, 2010**

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

FINDING: 2010-1 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, 2011.

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, 2010**

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

FINDING: 2010-2 MATERIAL AUDIT ADJUSTMENTS

- Condition:** The District made journal entries to adjust account 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, 2011.

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, 2010**

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

Finding: 2010 - 3 Account Coding Errors

Condition: The Minnesota Department of Education requires school districts to follow the Uniform Financial Accounting and Reporting System (UFARS) when coding all financial activity. Out of the 40 disbursements selected for testing, there were two that had incorrect account coding.

Criteria: The District should have controls in place to prevent, or detect and correct, incorrect UFARS account coding.

Questioned Costs: None

Context: The District did not build the necessary account codes.

Effect: The potential exists for the financial statements to have a material misstatement, due to incorrect account coding that would not be prevented, or detected and corrected, by the District's internal controls.

Cause: The District did not build the appropriate account codes.

Recommendation: We recommend the District build the appropriate account codes as they become needed.

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 has corrected the account coding for the two disbursements. The District will build the appropriate account codes in the future.

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, 2010.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

**FINDING: 2010-4 ARRA STABILIZATION TITLE VIII – IMPACT AID CFDA #84.394 AND TITLE I
CLUSTER CFDA #84.010 AND #84.389 PASS THROUGH MINNESOTA
DEPARTMENT OF EDUCATION
INTERNAL CONTROL OVER CASH MANAGEMENT AND REPORTING**

- Condition:** The reimbursement requests on SERVS and 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, 2010.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

**FINDING: 2010-5 TITLE I CLUSTER CFDA #84.010 AND #84.389 PASS THROUGH MINNESOTA
DEPARTMENT OF EDUCATION
COMPLETION OF JOBS SURVEY FORM 1512**

Condition: Title Fund dollars were used to pay teacher salaries. However, no Jobs Survey reports were submitted throughout the year.

Criteria: The U.S. Department of Education requires that Local Education Agencies report on a quarterly basis the number jobs created and retained as a result of funding received through ARRA funding.

Questioned Costs: None

Context: Not Applicable.

Effect: Possible loss of funding.

Cause: Management misinterpreted the compliance requirement.

Recommendation: The District should use survey instructions provided by the Minnesota Department of Education to calculate full time equivalents (FTEs) created or retained through the use of federal ARRA dollars for District employees only, and submit these computed figures on a quarterly basis.

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:

The planned completion date is December 31, 2010.

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, 2010**

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

**FINDING: 2010-6 TITLE I CLUSTER CFDA #84.010 AND #84.389
PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
TIME CERTIFICATIONS AND TIME AND EFFORT DISTRIBUTION
RECORDS**

Condition: A semi-annual time certification for the Title I, Part A Cluster was not completed by one employee.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who work in part on a single Federal program must maintain time and effort distribution records, documenting the portion of time and effort dedicated to the single Federal program.

Questioned Costs: None

Context: Not applicable

Effect: The potential exists that there could be improper coding of employees salaries for federal dollars.

Cause: Not known.

Recommendation: Semi-annual time certifications should be completed by all employees paid 100% from a single 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 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:

December 31, 2010

Plan to Monitor Completion of CAP:

The Board of Education of Independent School District No. 659 and administration will review the CAP as of June 30, 2010.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

**FINDING: 2010-7 SPECIAL EDUCATION CLUSTER – CFDA # 84.027, 84.173, 84.391, AND
84.392 PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION
INAPPROPRIATE PERSONNEL ACTIVITY REPORT (PAR) COMPLETION**

Condition: Three employees selected for Special Education disbursement testing there was no evidence that the PARs were reconciled to the annual payroll allocation between Special Education and non-Special Education programs.

Criteria: OMB Circular A-87, Attachment B, paragraph 8.h.(4) requires that employees who work in part on a single Federal program must maintain time and effort distribution records, documenting the portion of time and effort dedicated to the single Federal program. Employee payroll should match the time and effort distribution records.

Questioned Costs: None

Context: This is a systemic issue.

Effect: The potential exists that undocumented time could be incorrectly charged to the federal program code. No known effect on the financial statements.

Cause: Not known.

Recommendation: We recommend the District utilize detailed time cards signed and dated monthly by employees and supervisors to record Federal program and non-Federal program time worked. Pay distribution should be in accordance with the time card, or the cumulative time cards should be reconciled annually to Federal program employee's pay distribution.

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:

December 31, 2010.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

FINDING: 2010-8 SPECIAL EDUCATION CLUSTER – CFDA # 84.027, 84.173, 84.391, AND 84.392 PASS THROUGH MINNESOTA DEPARTMENT OF EDUCATION CHILD COUNT

Condition: Out of 40 students tested, one student was included on the December 1, 2009 Child Count Sheet that did not have an IEP completed within the previous 12 months.

Criteria: Minnesota Department of Education regulations require that a student listed as a special education student on the December 1, 2009 child count report to have an Individualized Education Plan (IEP) developed or approved within the past 12 months.

Questioned Costs: None

Context: Not applicable.

Effect: Overstatement of number of students that qualify for Special Education services at December 1.

Cause: Not known.

Recommendation: We recommend that the District implement a review process to ensure that no students are included on the December 1 count sheet that have not received services.

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:

December 31, 2010.

Plan to Monitor Completion of CAP:

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

**FINDING: 2010-9 ARRA STABILIZATION TITLE VIII – IMPACT AID CFDA #84.394
PASS-THROUGH MINNESOTA DEPARTMENT OF EDUCATION
REIMBURSEMENT REQUEST IN ADVANCE OF PAYMENT OF
EXPENDITURES**

Condition: Prior to June 30, 2010, the District submitted a reimbursement request for July and August payroll expenditures that had not been paid.

Criteria: Reimbursement requests should not be submitted until expenditures have been paid.

Questioned Costs: None

Context: A new system of reimbursement requests was implemented by the Minnesota Department of Education and proper internal controls have not yet been designed by the District to ensure compliance

Effect: The District received funds in advance of payment.

Cause: Clerical error.

Recommendation: We recommend that the District review Part 6 of OMB Circular A-133 as it relates to cash management and design and implement internal controls that would be sufficient to prevent, or detect and correct, any noncompliance that may occur.

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 Business Manager will continue to read literature and updates from MDE detailing proper procedures to be followed when requesting federal funds through the SERVS system.

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, 2010

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

2010-10 Account Coding Errors

Condition: The Minnesota Department of Education requires school districts to follow the Uniform Financial Accounting and Reporting System (UFARS) when coding all financial activity. Out of the 40 disbursements selected for testing, there were two that had incorrect account coding.

Criteria: The District should have controls in place to prevent, or detect and correct, incorrect UFARS account coding.

Questioned Costs: None

Context: The District did not build the necessary account codes.

Effect: The potential exists for the financial statements to have a material misstatement, due to incorrect account coding that would not be prevented, or detected and corrected, by the District's internal controls.

Cause: The District did not build the appropriate account codes.

Recommendation: We recommend the District build the appropriate account codes as they become needed.

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 has corrected the account coding for the two disbursements. The District will build the appropriate account codes in the future.

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, 2010

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>It not Corrected, Provide Planned Corrective Action or Other Explanation</u>
2009-01	Annual Financial Statement Reporting	Not Corrected	See above Finding 2010-1
2009-02	Material Audit Adjustments	Not Corrected	See above Finding 2010-2

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2010**

01 GENERAL FUND	Audit	UFARS	Difference	06 BUILDING CONSTRUCTION	Audit	UFARS	Difference
Total Revenue	\$ 16,544,434	\$ 16,544,421	\$ 13	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 15,284,478	\$ 15,284,467	\$ 9	Total Expenditures	\$ -	\$ -	\$ -
Reserved:				Reserved:			
403 Staff Development	\$ 92,907	\$ 92,907	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 389	\$ 389	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health and Safety	\$ (37,409)	\$ (37,409)	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	Unreserved:			
411 Severance Pay	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
419 Encumbrances	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
424 Operating Capital	\$ 829,578	\$ 829,578	\$ -	Reserved:			
426 \$25 Taconite	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	451 OZAB Payments	\$ -	\$ -	\$ -
428 Learning and Development	\$ -	\$ -	\$ -	Unreserved:			
434 Area Learning Center	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ 618,554	\$ 618,554	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -				
436 State Approved Alt. Program	\$ -	\$ -	\$ -	08 TRUST			
438 Grad Standards Gifted & Talented	\$ -	\$ -	\$ -	Total Revenue	\$ 5,301	\$ 5,301	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 18,033	\$ 18,033	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -	Reserved:			
446 First Grade Preparedness	\$ -	\$ -	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
449 Safe Schools - Crime Levy	\$ -	\$ -	\$ -	Unreserved:			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ 1,017,109	\$ 1,017,109	\$ -
451 OZAB Payments	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	09 AGENCY			
Unreserved:				Unreserved:			
418 Severance - Ins. Premium	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ -	\$ -	\$ -
422 Unreserved/Undesignated	\$ 4,838,560	\$ 4,838,555	\$ 5				
02 FOOD SERVICE				20 INTERNAL SERVICE			
Total Revenue	\$ 966,234	\$ 966,233	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 916,376	\$ 916,376	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Fund Balance				Reserved:			
Reserved:				419 Encumbrances	\$ -	\$ -	\$ -
411 Severance Pay	\$ -	\$ -	\$ -	Unreserved:			
419 Encumbrances	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ 800,000	\$ 800,000	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
Unreserved:				25 OPEB REVOCABLE TRUST			
418 Severance - Ins. Premium	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
422 Unreserved/Undesignated	\$ 102,329	\$ 102,329	\$ -	Total Expenditures	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				Reserved:			
Total Revenue	\$ 725,376	\$ 725,380	\$ (4)	419 Encumbrances	\$ -	\$ -	\$ -
Total Expenditures	\$ 739,914	\$ 739,917	\$ (3)	Unreserved:			
Reserved:				422 Unreserved/Undesignated	\$ -	\$ -	\$ -
411 Severance Pay	\$ -	\$ -	\$ -				
419 Encumbrances	\$ -	\$ -	\$ -	45 OPEB IRREVOCABLE TRUST			
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
431 Community Education	\$ 48,400	\$ 48,400	\$ -	Total Expenditures	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ 15,499	\$ 15,498	\$ 1	Reserved:			
444 School Readiness	\$ 4,836	\$ 4,836	\$ -	419 Encumbrances	\$ -	\$ -	\$ -
447 Adult Basic Education	\$ -	\$ 1	\$ (1)	Unreserved:			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	422 Unreserved/Undesignated	\$ -	\$ -	\$ -
Unreserved:							
418 Severance - Ins. Premium	\$ -	\$ -	\$ -	47 OPEB DEBT SERVICE			
422 Unreserved/Undesignated	\$ 29,728	\$ 29,728	\$ -	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	\$ -	\$ -	\$ -
				Reserved:			
				425 Bond Refundings	\$ -	\$ -	\$ -
				Unreserved:			
				422 Unreserved/Undesignated	\$ -	\$ -	\$ -
				FY10 OPERATING CAPITAL TRANSFER			
				Per Pupil Amount	\$ 0		
				AMCPU	0		
				Total Transfer	\$ 0		

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EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

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

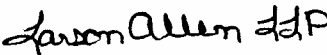
We have audited the accompanying statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 2859 as of and for the year ended June 30, 2010. This financial statement is the responsibility of the District's extracurricular student activity 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, 2010, and the cash balances at that date on the basis of accounting as described in Note 1.


LarsonAllen LLP

Austin, Minnesota
November 3, 2010

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2010**

Funds	Balance 06/30/09	Transfers and Receipts	Transfers and Disburse- ments	Balance 06/30/10
Mock Trial	\$ -	\$ 225	\$ 73	\$ 152
High School Yearbook	(3,749)	2,868	590	(1,471)
Project Dirt	-	740	468	272
Art	2,630	3,177	2,858	2,949
Activities	24,243	-	24,243	-
Band	10,131	88,482	93,257	5,356
Business Professional Association (BPA)	1,881	9,660	8,344	3,197
Trip Abroad	11,960	22,759	34,394	325
Choir	860	773	818	815
Lincoln Fund	6,286	-	6,286	-
Close-Up	2,194	6,517	7,357	1,354
Kindergarten Entertainment	-	1,112	1,112	-
Grade 1 Entertainment	-	1,235	1,235	-
Grade 2 Entertainment	-	1,049	1,049	-
Grade 3 Entertainment	-	1,139	1,139	-
Grade 4 Entertainment	-	876	876	-
FFA	6,011	26,357	25,029	7,339
FCCLA	234	-	181	53
History	-	920	702	218
LS Art Club	51	-	-	51
Lincoln Student Council	3,982	3,123	3,137	3,968
Grade 5 Entertainment	-	210	210	-
Grade 6 Entertainment	-	1,020	1,020	-
Lakeside Activities	20,764	-	20,764	-
Helen Baker Fund	21,455	-	21,455	-
HS Auto Shop	-	-	-	-
HS Handbooks	3,471	-	3,471	-
LS Handbooks	3,173	-	3,173	-
Lincoln Yearbooks	363	2,080	2,246	197
Lincoln Handbooks	76	-	76	-
YES Grant	500	-	-	500
HS Student Council	2,078	3,165	4,136	1,107
Interest - Admin	-	268	268	-
L S Elem. Field Trips	-	-	-	-
Spanish Club	57	778	835	-
LS Student Council	450	889	767	572
DCD	803	606	686	723

See accompanying Notes to Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

<u>Funds</u>	<u>Balance 06/30/09</u>	<u>Transfer and Receipts</u>	<u>Transfer and Disburse- ments</u>	<u>Balance 06/30/10</u>
Destination Imagination (OM)	\$ 940	\$ 1,236	\$ 2,176	\$ -
HB Student Needs	301	-	301	-
LS Student Needs	187	-	187	-
Nat'l Honor Society	823	1,745	507	2,061
Schools Elem Memory Book	1,467	5,287	4,610	2,144
Football	240	-	240	-
Class of 2010	7,131	112	7,243	-
Class of 2011	1,156	24,362	16,563	8,955
Class of 2012	-	8,066	4,779	3,287
High School Field Trips	-	-	-	-
High School Fund	4,800	-	4,800	-
Science Fair	373	656	834	195
Wetlands	378	-	-	378
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 137,700</u>	<u>\$ 221,492</u>	<u>\$ 314,495</u>	<u>\$ 44,697</u>

See accompanying Notes to Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2010**

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, 2010, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

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, 2010, and have issued our report thereon dated November 3, 2010.

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 2010-11, and 2010-12.

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 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 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

LarsonAllen LLP

Austin, Minnesota
November 3, 2010

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2009**

FINDING 2010-11: IMPROPER DISBURSEMENT

We noted one disbursement for disc jockey services, which was contracted by the activity fund, during the year ended June 30, 2010. This is an improper activity according to the Manual for Activity Fund Accounting in Minnesota School Districts, which prohibits student activity funds from entering into contracts.

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 its policy for student activity contracts and will no longer allow activity funds to enter into contracts.

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 planned completion date is November 1, 2010.

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
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2009**

FINDING 2010-12: NEGATIVE STUDENT ACTIVITY FUND BALANCE

A certain student activity fund (HS Yearbook) had a negative balance at June 30, 2010. 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, 2010.

Plan to Monitor Completion of CAP

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

