

**FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2007**

**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA**

**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA**

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BROWNTON, MINNESOTA**

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**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA**

**LIST OF ELECTED SCHOOL OFFICIALS**

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Board of Education

Paula Schons	Chair
Tom Lemke	Vice-Chair
Robin Sikkila	Clerk
Kay Husfeldt	Treasurer
Todd Kalenberg	Director
Brenda Miller	Director



## INDEPENDENT AUDITORS' REPORT

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Members of the School Board  
Independent School District No. 2887  
Brownton, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2887, Brownton, Minnesota, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 2887's management. Our responsibility is to express an opinion 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2887 as of June 30, 2007, and the respective changes in financial position 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 December 7, 2007, on our consideration of Independent School District No. 2887's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Members of the School Board  
Independent School District No. 2887

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part 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 an opinion on the financial statements that collectively comprise Independent School District No. 2887's basic financial statements. The introductory section, Minnesota compliance section, and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, Minnesota compliance section, and other information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Eide Bailly LLP  
Mankato, Minnesota  
December 7, 2007

**Independent School District No. 2887  
McLeod West Public School  
Brownton, Minnesota  
Managements Discussion and Analysis  
Year Ended June 30, 2007**

This section of Independent School District No. 2887 – McLeod West Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model that is required by the Government Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders.

**Financial Highlights**

Key financial highlights for the 2006-07 fiscal years include the following:

- Net assets decreased \$223,569 from the prior year.
- Overall revenues were \$3,908,653 while overall expenses totaled \$4,132,222.
- The general fund unreserved fund balance increased by \$40,472, the overall general fund balance decreased \$222,399, the food service fund balance increased by \$3,230 and the community service fund balance increased by \$582.
- The District decreased its long-term debt by \$20,697 due to the payment of severance to retired or resigned employees.

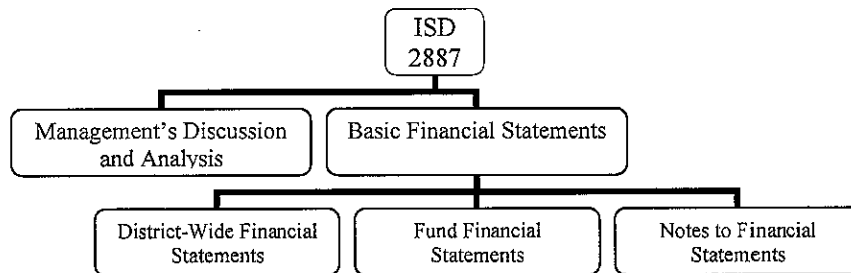
**Independent School District No. 2887**  
**McLeod West Public School**  
**Brownton, Minnesota**  
**Managements Discussion and Analysis**  
**Year Ended June 30, 2007**

**Overview of the Financial Statements**

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information, which includes the management’s discussion and analysis (this section), the basic financial statements, and supplementary 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 fund statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district’s budget for the year. The diagram below shows how the various parts of this annual report are arranged and relate to one another.



**Independent School District No. 2887  
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Managements Discussion and Analysis  
Year Ended June 30, 2007**

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

FUND FINANCIAL STATEMENTS			
	District-Wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Assets/Liabilities Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets although they can
Type of Inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**Independent School District No. 2887  
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**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.

The two district-wide statements report the District's net assets and how they have changed. Net assets are the difference between the District's assets and liabilities and is 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 account devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District has two kinds of funds:

Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial services 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 following the governmental funds statements that explains the relationship (or difference) between them.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the agency fund. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

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Managements Discussion and Analysis  
Year Ended June 30, 2007

**Financial Analysis of The District As A Whole  
(District-Wide Financial Statements)**

**Net Assets**

The District's combined net assets were \$500,347 on June 30, 2007 (see Table A-1). This represents a decrease of \$223,569 when compared to the \$723,916 at June 30, 2006.

**Table A-1**

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
<b>ASSETS</b>			
Current and other assets	\$ 1,938,074	\$ 1,946,057	-0.41%
Capital assets	<u>775,089</u>	<u>802,899</u>	-3.46%
Total assets	<u>2,713,163</u>	<u>2,748,956</u>	-1.30%
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Other liabilities	1,731,234	1,522,761	13.69%
Long-term liabilities	<u>481,582</u>	<u>502,279</u>	-4.12%
Total liabilities	<u>2,212,816</u>	<u>2,025,040</u>	9.27%
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	775,089	802,899	-3.46%
Restricted for specific purposes	213,669	471,893	-54.72%
Unrestricted	<u>(488,411)</u>	<u>(550,876)</u>	-11.34%
Total net assets	<u>\$ 500,347</u>	<u>\$ 723,916</u>	-30.88%

The decrease of \$223,569 is significant, and is indicative of how tight the District's operating budget is in view of marginal state funding and the declining enrollment the District has experienced.

**Independent School District No. 2887  
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Year Ended June 30, 2007**

**Change in Net Assets**

The decrease in net assets occurred as a result of the District's revenues being less than its expenses for the year ended June 30, 2007. A summary of the revenues and expenses is presented in Table A-2 below.

**Table A-2**

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
<b>REVENUES</b>			
Program revenues			
Charges for services	\$ 193,768	\$ 270,502	-28.37%
Operating grants and contributions	673,543	618,414	8.91%
Capital grants and contributions	47,525	109,395	-56.56%
General			
Property taxes	365,405	203,325	79.71%
Aids and payments from state and other	2,516,486	2,680,368	-6.11%
Unrestricted investment earnings	60,997	43,197	41.21%
Gain on sale of property and equipment	200	-	
Miscellaneous revenues	50,729	25,790	96.70%
Total revenues	<u>3,908,653</u>	<u>3,950,991</u>	-1.07%
<b>EXPENSES</b>			
District and school administration	284,071	231,882	22.51%
District support services	141,419	112,664	25.52%
Regular instruction	1,948,562	2,088,042	-6.68%
Vocational instruction	82,902	85,139	-2.63%
Special education instruction	321,593	351,979	-8.63%
Community education and services	84,614	90,876	-6.89%
Instructional support services	264,566	224,620	17.78%
Pupil support services	565,958	551,751	2.57%
Site, buildings and equipment	350,828	359,837	-2.50%
Fiscal and other fixed-cost programs	87,709	65,618	33.67%
Total expenses	<u>4,132,222</u>	<u>4,162,408</u>	-0.73%
CHANGE IN NET ASSETS	(223,569)	(211,417)	5.75%
NET ASSETS - BEGINNING	723,916	915,945	-20.97%
PRIOR PERIOD ADJUSTMENT	-	19,388	-100.00%
NET ASSETS - END	<u>\$ 500,347</u>	<u>\$ 723,916</u>	-30.88%

**Independent School District No. 2887  
McLeod West Public School  
Brownton, Minnesota  
Managements Discussion and Analysis  
Year Ended June 30, 2007**

**Changes in net assets.** The District's total revenues were \$3,908,653 for the year ended June 30, 2007. (See Table A-2)

Unallocated federal and state aid along with property taxes accounted for 73.73% of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 18.45% and the remainder 7.82% from fees charged for services and miscellaneous sources. (See Table A-3 below).

The total cost of all programs and services was \$4,132,222. The District's expenses are predominantly related to student education and student educational support 77.05%. The District's administrative activities accounted for 6.87% of the total costs. (See Table A-4 below). Total expenses surpassed total revenues in decreasing net assets by \$223,569 from last year.

**Table A-3  
Sources of ISD #2887 Revenues for Fiscal Year 2007**

• Charges for Services	4.96%
• Operating Grants & Contributions	17.23%
• Capital Grants & Contributions	1.22%
• Property Taxes	9.35%
• Unallocated Federal & State Aid	64.38%
• Other Sources	2.86%

**Table A-4  
ISD #2887 Expenses for Fiscal Year 2006**

• Administrative	6.87%
• District Support Services	3.42%
• Regular Education	47.16%
• Vocational Education	2.01%
• Special Education Instruction	7.78%
• Community Education Services	2.05%
• Instructional Support Services	6.40%
• Pupil Support Services	13.70%
• Sites & Buildings	8.49%
• Fiscal & Other Fixed Costs	2.12%

**Independent School District No. 2887  
McLeod West Public School  
Brownton, Minnesota  
Managements Discussion and Analysis  
Year Ended June 30, 2007**

**Governmental Activities:**

Table A-5 shows the net cost of each major activity of the District. The net cost is the total cost less the program revenues applicable to each activity.

**Table A-5**

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
District and school administration	\$ 284,071	\$ 231,882	22.51%	\$ 284,071	231,882	22.51%
District support services	141,419	112,664	25.52%	141,419	112,664	25.52%
Regular instruction	1,948,562	2,088,042	-6.68%	1,485,058	1,649,876	-9.99%
Vocational instruction	82,902	85,139	-2.63%	79,505	80,720	-1.51%
Special education instruction	321,593	351,979	-8.63%	208,583	169,781	22.85%
Community education and services	84,614	90,876	-6.89%	40,303	52,741	-23.58%
Instructional support services	264,566	224,620	17.78%	189,222	151,653	24.77%
Pupil support services	565,958	551,751	2.57%	392,293	373,713	4.97%
Site, buildings and equipment	350,828	359,837	-2.50%	309,223	275,449	12.26%
Fiscal and other fixed-cost programs	87,709	65,618	33.67%	87,709	65,618	33.67%
Total expenses	<u>\$ 4,132,222</u>	<u>\$ 4,162,408</u>	-0.73%	<u>\$ 3,217,386</u>	<u>\$ 3,164,097</u>	1.68%

- The cost of all governmental activities this year was \$4,132,222.
- The users of the District's programs financed \$193,768 of the cost of services.
- Operating and capital grants and contributions financed \$721,068 of the cost of services
- District and state taxpayers finance \$2,881,891 of the District's costs. This portion of governmental activities was financed with \$365,405 in property taxes, and \$2,516,486 of unrestricted state aid based on the statewide education aid formula.
- The remaining balance is financed from other sources.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS  
(FUND FINANCIAL STATEMENTS)**

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2006-2007 fiscal year, the District's governmental funds reported combined fund balances of \$200,969 compared to \$418,656 for the previous year. This includes reserved and unreserved fund balances. The decrease is due in large part to the increased equipment costs, fuel costs, eligible pupil vehicles, and building maintenance costs.

Total revenues and expenditures for the District's governmental funds were \$3,906,522 (including other financing sources) and \$4,125,109 respectively. As a result, the District completed the year with expenditures exceeding revenues by \$218,587.

**Independent School District No. 2887  
McLeod West Public School  
Brownton, Minnesota  
Managements Discussion and Analysis  
Year Ended June 30, 2007**

**General Fund:**

The General Fund is used to account for all revenues and expenditures of the School District not accounted for elsewhere. This fund is used to account for: K-12 educational activities, District instructional and student support programs, expenditures for both District and School administration, normal operations and maintenance, pupil transportation, capital expenditures, and all other legal expenditures not specifically designated to be accounted for in any other fund. (See Table A-6 for a summary of the revenues, expenditures, and fund balances for all of the District's Governmental funds, including the General Fund).

- **Revenues:**

Fiscal Year 2006-07 saw a decrease in student adjusted marginal cost pupil units (AMCPU) of 41 students from 2005-06. Due to the 2005 legislative session, the formula allowance was at \$4,974 per AMCPU for the 2006-07 year. Revenues total \$3,660,436, a decrease of \$47,874 from fiscal year 2006. The 1.29% revenue decrease is primarily due to the decrease in student enrollment.

- **Expenditures:**

For Fiscal Year 2007 expenditures totaled \$3,883,035, this was an increase of \$92,086 over the previous year. This is an increase of 2.43%. Most of the increase in expenditures was primarily due to regular instruction costs, heating and fuel costs and building and equipment maintenance costs due to the aging of eligible pupil vehicles, equipment, buildings, and programs.

- **Fund Balance:**

The unreserved fund balance is \$(12,765) and the various reserved fund balances (i.e.; Staff Development, Severance Pay, Disabled Accessibility, Operating Capital, Health & Safety, and Safe School Levy) total \$188,408.

The single best measurement of the District's overall financial health in the General Fund is the Unreserved/Undesignated Fund Balance. The District closely monitors this fund balance through a major budget revision in the spring of each fiscal year.

**Food Service Fund:**

The Food Service Fund is used to record financial activities of the School District's food service program. Food service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school and community service activities. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Food Service Fund). The increase in fund balance is primarily due to increased food service program sales.

Independent School District No. 2887  
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**Community Service Fund:**

The Community Service Fund is used to record all financial activities of the Community Service program. The Community Service Fund is comprised of four components, each with its own fund balance. The four components are Community Service, Community Education, Early Childhood Family Education (ECFE) and School Readiness. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Community Service Fund). The increase in fund balance is primarily due to decreased expenditures in Community Education and due to the adjustment the State Legislature made in 2003 with the un-allotment bill.

**Table A-6**

**Revenue and Expenditures – Governmental Funds**

	Revenue	Expenditures	Other Financing Sources (Uses)	Net Increase (Decrease)	Fund Balance As of 6/30/07	Fund Balance As of 6/30/06
General Fund	\$3,660,436	\$ 3,883,035	\$ 200	\$ (222,399)	\$ 175,643	\$ 398,042
Food Service Fund	160,706	157,476	-	3,230	15,991	12,761
Community Service	85,180	84,598	-	582	8,435	7,853
Total	<u>\$3,906,322</u>	<u>\$ 4,125,109</u>	<u>\$ 200</u>	<u>\$ (218,587)</u>	<u>\$ 200,069</u>	<u>\$ 418,656</u>

**General Fund Budgetary Highlights**

The balance of the general unreserved fund balance went from \$(53,237) to \$(12,765), a \$40,472 increase. In an effort to maintain the District's fund balance, the District did a one time transfer from the operating capital reserve of \$200,000 to the general fund prior to June 30, 2007.

Independent School District No. 2887  
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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets:**

By the end of fiscal year 2007, the District had invested \$3,227,751 in a broad range of capital assets, including school buildings, land, computer, and audio-visual equipment, and other equipment for various instructional programs (see Table A-7). Total depreciation expense for the year was \$77,071. More detailed information about capital assets can be found in Note 3(C) to the financial statements.

**Table A-7**  
**Capital Assets**

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Land	\$ 3	\$ 3	0.00%
Construction in progress	5,000	5,000	0.00%
Buildings	1,900,528	1,900,528	0.00%
Vehicles	494,757	491,492	0.66%
Equipment	827,463	781,467	5.89%
Accumulated depreciation	<u>(2,452,662)</u>	<u>(2,375,591)</u>	3.24%
Total capital assets	<u>\$ 775,089</u>	<u>\$ 802,899</u>	-3.46%

**Long-Term Liabilities:**

Overall, the District's outstanding long-term liabilities decreased by \$20,697 in fiscal year 2007. In addition, the District had \$481,582 in severance liabilities for current and retired employees. More detailed information about the District's long-term liabilities is presented in Note 3 (E) of the financial statements.

**Table A-8**  
**Outstanding Long-Term Liabilities**

	<u>2007</u>	<u>2006</u>	<u>% of Change</u>
Severance Payable	\$481,582	\$502,279	(4.12)%

**Independent School District No. 2887  
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**Factors Bearing On the District's Future**

With the exception of a voter-approved excess levy referendum, the district is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional needs and increased costs due to inflation.

The 2005 legislature approved a 3.95% and 3.99% increase in the General Education formula for 2006-07 and 2007-08, respectively. This funding formula is below the current annual rate of inflation. Accordingly, the district continues to utilize a financial planning model, along with detailed and conservative budgeting and budget monitoring processes. The District will continue to seek all available sources of funding, respond to enrollment declines, and maintain systems that ensure financial stability.

**Contacting The District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact Thomas Hiebert, Superintendent, at the District office.

INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

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ASSETS

Cash and Investments	\$ 1,331,579
Receivables	
Current Property Taxes Receivable	221,730
Delinquent Property Taxes Receivable	6,771
Interest Receivable	33,056
Due from Other Minnesota School Districts	39,451
Due from Minnesota Department of Education	275,756
Due from Federal Through Minnesota Department of Education	14,010
Due from Other Governmental Units	1,791
Inventories	12,966
Prepaid Expenses	964
Capital Assets	
Land and Construction in Progress	5,003
Other Capital Assets, Net of Depreciation	770,086
	<hr/>
Total Assets	2,713,163

LIABILITIES

Salaries Payable	154,107
Short Term Debt	1,058,460
Accounts Payable	11,398
Interest Payable	30,071
Due to Other Minnesota School Districts	4,353
Payroll Deductions	107,368
Deferred Revenue	2,136
Property Taxes Levied for Subsequent Year	363,341
Noncurrent Liabilities	
Due Within One Year	81,942
Due in More Than One Year	399,640
	<hr/>
Total Liabilities	2,212,816

NET ASSETS

Invested in Capital Assets, Net of Related Debt	775,089
Restricted for:	
Food Service	15,991
Community Service	9,270
Other Purposes	188,408
Unrestricted	(488,411)
	<hr/>
TOTAL NET ASSETS	\$ 500,347

**INDEPENDENT SCHOOL DISTRICT NO. 2887**  
**BROWNTON, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration	\$ 284,071	\$ -	\$ -	\$ -	\$ (284,071)
District Support Services	141,419	-	-	-	(141,419)
Regular Instruction	1,948,562	67,147	390,062	6,295	(1,485,058)
Vocational Instruction	82,902	-	3,397	-	(79,505)
Special Education Instruction	321,593	2,893	110,117	-	(208,583)
Community Education and Services	84,614	25,338	18,973	-	(40,303)
Instructional Support Services	264,566	-	75,344	-	(189,222)
Pupil Support Services	565,958	98,215	75,450	-	(392,293)
Sites and Buildings	350,828	175	200	41,230	(309,223)
Fiscal and Other Fixed Cost Programs	87,709	-	-	-	(87,709)
Total Governmental Activities	<u>\$ 4,132,222</u>	<u>\$ 193,768</u>	<u>\$ 673,543</u>	<u>\$ 47,525</u>	<u>(3,217,386)</u>
GENERAL REVENUES					
Property Taxes and Other Local Sources					365,405
State Aid Not Restricted to Specific Purposes					2,516,486
Earnings on Investments					60,997
Miscellaneous					50,729
Gain on Sale of Assets					200
Total General Revenues					<u>2,993,817</u>
CHANGES IN NET ASSETS					(223,569)
NET ASSETS - BEGINNING					<u>723,916</u>
NET ASSETS - ENDING					<u>\$ 500,347</u>

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	General	Food Service	Community Service	Totals
<b>ASSETS</b>				
Cash and Investments	\$ 1,282,656	\$ 17,021	\$ 31,902	\$ 1,331,579
Receivables				
Current Property Taxes	192,267	-	29,463	221,730
Delinquent Property Taxes	5,936	-	835	6,771
Interest Receivable	33,056	-	-	33,056
Due from Other Minnesota School Districts	39,451	-	-	39,451
Due from Minnesota Department of Education	273,314	-	2,442	275,756
Due from Federal Through Minnesota	14,010	-	-	14,010
Due from Other Governmental Units	1,791	-	-	1,791
Prepaid Expenses	964	-	-	964
Inventories	11,860	1,106	-	12,966
<b>TOTAL ASSETS</b>	<b>\$ 1,855,305</b>	<b>\$ 18,127</b>	<b>\$ 64,642</b>	<b>\$ 1,938,074</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Salaries Payable	\$ 149,971	\$ -	\$ 4,136	\$ 154,107
Short Term Debt	1,058,460	-	-	1,058,460
Accounts Payable	11,010	-	388	11,398
Interest Payable	30,071	-	-	30,071
Due to Other Minnesota School Districts	4,353	-	-	4,353
Payroll Deductions	107,368	-	-	107,368
Deferred Revenue	-	2,136	-	2,136
Deferred Revenue - Delinquent Taxes	5,936	-	835	6,771
Property Taxes Levied for Subsequent Years	312,493	-	50,848	363,341
<b>Total Liabilities</b>	<b>1,679,662</b>	<b>2,136</b>	<b>56,207</b>	<b>1,738,005</b>
<b>FUND BALANCES</b>				
Reserved for:				
Staff Development	69,997	-	-	69,997
Deferred Maintenance	(22,361)	-	-	(22,361)
Health and Safety	24,208	-	-	24,208
Severance Pay	25,083	-	-	25,083
Operating Capital	83,178	-	-	83,178
Disabled Accessibility	8,930	-	-	8,930
Basic Skill	323	-	-	323
Safe Schools Crime	(950)	-	-	(950)
Community Education	-	-	(27,217)	(27,217)
Early Childhood Family Education	-	-	15,672	15,672
School Readiness	-	-	1,488	1,488
Unreserved:				
Undesignated	(12,765)	15,991	18,492	21,718
<b>Total Fund Balances</b>	<b>175,643</b>	<b>15,991</b>	<b>8,435</b>	<b>200,069</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,855,305</b>	<b>\$ 18,127</b>	<b>\$ 64,642</b>	<b>\$ 1,938,074</b>

INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

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Total Fund Balances for Governmental Funds	\$ 200,069
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$3,227,751 and the accumulated depreciation is \$2,452,662.	775,089
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.	6,771
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:	
Separation and Severance Payable	<u>(481,582)</u>
Total Net Assets for Governmental Activities	<u>\$ 500,347</u>

## INDEPENDENT SCHOOL DISTRICT NO. 2887

## BROWNTON, MINNESOTA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	General	Food Service	Community Service	Totals
<b>REVENUES</b>				
Local Property Tax Levies	\$ 321,375	\$ -	\$ 32,301	\$ 353,676
Other Local and County Sources	334,893	171	27,963	363,027
State Sources	2,899,298	9,358	24,916	2,933,572
Federal Sources	104,839	53,085	-	157,924
Local Sales and Insurance Recovery	31	98,092	-	98,123
Total Revenues	<u>3,660,436</u>	<u>160,706</u>	<u>85,180</u>	<u>3,906,322</u>
<b>EXPENDITURES</b>				
Administration	282,818	-	-	282,818
District Support Services	141,371	-	-	141,371
Regular Instruction	1,970,791	-	-	1,970,791
Vocational Instruction	84,638	-	-	84,638
Special Education Instruction	321,593	-	-	321,593
Community Education and Services	-	-	84,598	84,598
Instructional Support Services	281,291	-	-	281,291
Pupil Support Services	389,615	157,476	-	547,091
Sites and Buildings	344,138	-	-	344,138
Fiscal and Other Fixed Cost Programs	66,780	-	-	66,780
Total Expenditures	<u>3,883,035</u>	<u>157,476</u>	<u>84,598</u>	<u>4,125,109</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(222,599)</u>	<u>3,230</u>	<u>582</u>	<u>(218,787)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sales of Equipment	<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
NET CHANGE IN FUND BALANCES	(222,399)	3,230	582	(218,587)
FUND BALANCES - Beginning	<u>398,042</u>	<u>12,761</u>	<u>7,853</u>	<u>418,656</u>
FUND BALANCES - Ending	<u>\$ 175,643</u>	<u>\$ 15,991</u>	<u>\$ 8,435</u>	<u>\$ 200,069</u>

INDEPENDENT SCHOOL DISTRICT NO. 2887

BROWNTON, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

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Total Net Change in Fund Balances for Governmental Funds	\$ (218,587)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$77,071) exceeds capital outlays (\$49,261) in the current period.	(27,810)
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The governmental funds report severance costs as expenditures when paid, on the other hand, the statement of activities reports severance costs as expenditures as the employees earn the compensated absences. In the statement of net assets, the payment of severance results in a reduction of the liability. This amount is the net effect of these differences.	20,697
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Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred revenue - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. Deferred property tax revenues increased this year.	<u>2,131</u>
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Change in Net Assets of Governmental Activities	<u>\$ (223,569)</u>
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INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
JUNE 30, 2007

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	Private Purpose Trust Fund
ASSETS	
Cash and Investments	\$ 23,869
Total assets	23,869
NET ASSETS	
Reserved for Scholarships	23,869
TOTAL NET ASSETS	\$ 23,869

INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

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	Private Purpose Trust Fund
ADDITIONS	
Other Local and County Revenues	\$ 3,152
Total Additions	3,152
DEDUCTIONS	
Pupil Support Services	4,410
Total Deductions	4,410
Change in Net Assets	(1,258)
Net Assets - Beginning of Year	25,127
Net Assets - End of Year	\$ 23,869

**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Independent School District No. 2887 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant School District accounting policies are described below.

**A. Financial Reporting Entity**

Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", established standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The District does not have any blended or discretely presented component units. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, intergovernmental revenues and other items not properly included among program revenues are reported instead as general revenues.

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

## NOTES TO FINANCIAL STATEMENTS

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### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as 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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid expenditures are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other School Districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports deferred revenue on its governmental fund financial statements. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. 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 financial statements and revenue is recognized. Deferred revenues also arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of deferred revenue is recorded on the District's government-wide and governmental fund financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. The District's student activity balance of \$44,683 is under board control and is reported and audited in the general fund as designated funds.

The *special revenue funds* are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The special revenue *food service fund* is used to record financial activities of the District's food service program. Food service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school and community service activities.

The special revenue *community service fund* is used to record all financial activities of the community service program. The community service fund is comprised of five components, each with its own fund balance (community service, community education, early childhood and family education, school readiness, and adult basic education) as authorized in Minnesota State Statutes.

The *fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The *private-purpose trust fund* is used to account for resources legally held in trust by agreements where the school board has accepted the responsibility to serve as trustee.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

## NOTES TO FINANCIAL STATEMENTS

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### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* in the government-wide financial statements include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all unrestricted property taxes and State general education aid.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### D. Assets, Liabilities, and Net Assets or Equity

#### 1. Deposits and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, stated at cost which approximates fair value and Insured Certificates of Deposit.

#### 2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest on investments and certain receivables is recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the School Board certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

## NOTES TO FINANCIAL STATEMENTS

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### D. Assets, Liabilities, and Net Assets or Equity - Continued

#### 2. *Receivables- Continued*

Beginning on November 29th and through December 20th of each year, the District is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2006 which are not payable until 2007 less amounts received before June 30, 2007. Delinquent taxes receivable represent levies collectible during 2006 and prior years. Delinquent taxes are recorded as deferred revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2006, but not payable until 2007 and are not expendable by the District until the 2007-2008 school year, adjusted for the property tax shift amount.

#### 3. *Inventories, Commodities and Prepaid Items*

All inventories are expended when consumed and are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. *Capital Assets*

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

## NOTES TO FINANCIAL STATEMENTS

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### D. Assets, Liabilities, and Net Assets or Equity - Continued

#### 4. Capital Assets - Continued

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Plumbing and Electrical	30
Building Improvements Interior, Portable Classrooms, and Fire System	25
Heating and Ventilation System, Long-term Admin Software, Furniture and Fixtures, Outdoor Equipment, Roofing, and Site Improvements	20
Custodial Equipment, Grounds Equipment, Kitchen Equipment, and Machinery and Tools	15
All Other Equipment, Short-term Admin Software, and Long-term Instructional Software	10
Vehicles and Buses	8
Carpet Replacement	7
Computer Hardware, Copiers, Short-term Instructional Software, and Library Books	5

#### 5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated sick leave in excess of 75 days for teachers and 80 days to support personnel is paid at year end in accordance with an agreement between the District and McLeod West Education Association and McLeod West Support Personnel. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements. All unused vacation leave at June 30, 2007 expired.

Independent School District No. 2887 provides for early retirement severance pay, which qualifies as a termination benefit. Any full time teacher who has become eligible can receive severance pay based on an amount outlined in the master agreement between the District and McLeod West Education Association. Teachers hired after July 1, 2000 and before June 30, 2011, may elect to participate in the current severance package or participate in a 403(b) matching annuity plan provided by the District. Teachers hired after June 30, 2011 can only participate in the 403(b) matching annuity plan. The Principals and Superintendent of the District can receive severance pay based on their respective contracts.

#### 6. 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. In the fund financial statements, governmental fund types recognize retirement of debt as costs during the current period.

## NOTES TO FINANCIAL STATEMENTS

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### **D. Assets, Liabilities, and Net Assets or Equity - Continued**

#### *7. Fund Equity and Net Assets*

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. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, the difference between the District's assets and its liabilities is its net assets. Net assets are displayed in three components - invested in capital assets, net of related debt; restricted, and unrestricted. Net assets restricted for other purposes of the District's government-wide financial statements are equal to the District's general fund financial statements reserved fund balances. Net assets restricted for community service of the District's government-wide financial statements are equal to the District's community service fund reserved balances plus the unreserved balance. These amounts are required to be reserved due to Minnesota Statutes.

### **E. Disaggregation of Receivable and Payable Balances**

The District disaggregates all significant components of receivables and payables in the financial statements. All receivables of the District are expected to be collected within the subsequent year.

### **F. Inter-Fund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers. Transfers have been removed from the government-wide financial statements.

### **G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS

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### H. Property Tax Shift

Each year the State of Minnesota requires school districts to shift property taxes and general education aid in accordance with State Statutes. During prior years the District shifted \$53,909 in property tax revenues and general education aid; an amount of \$6,383 was returned by the State during the current year. The District has recognized as an increase in property tax revenues and general education aid an amount equal to these shifted amounts. The net amount shifted to date has reduced taxes levied for subsequent years by \$47,687 in the general fund and \$(161) in the community service fund for a total shift of \$47,526. Of this total shifted amount, \$26,261 was for referendum levies shifted at 31% of the 2000 payable 2001 levy limitation and certification, \$6,453 for additional referendum shift amount of the 2000 payable 2001 levy limitation and certification, \$10,000 for career tech and \$4,973 for reemployment shifted at 100% of the 2006 payable 2007 levy limitation and certification, and \$(161) for legislative change shifted at 100% of the 2006 payable 2007 levy limitation and certification.

The referendum, additional referendum, career tech, and reemployment levy shift amounts are an early revenue recognition and have increased the current years fund balance in the general fund. The other property tax amounts have no effect on the District's fund balances. The referendum shift amount will remain constant from year to year until changed by State Statutes.

### NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the school board for review. The school board holds public hearings and a final budget must be prepared and adopted no later than one week after the school board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2007, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The school board made several supplemental budgetary appropriations throughout the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

## NOTES TO FINANCIAL STATEMENTS

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### B. Excess of Expenditures over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in the general fund, the food service fund and the community service fund (the legal level of budgetary control) by \$469,411, \$13,052 and \$16,409, respectively. These over expenditures were funded by greater than anticipated revenues and available fund balance in the case of the general fund, and by greater than anticipated revenues in the case of the food service fund and the community service fund.

### C. Deficit Fund Equity

There were no funds with deficit fund equity for the year ended June 30, 2007.

## NOTE 3. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

#### 1. Deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District 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 bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

**Custodial Credit Risk—Deposits.** 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. As of June 30, 2007, none of the District's bank balances were exposed to custodial credit risk.

#### 2. Investments

As of June 30, 2007, the District had the following investments. Except for the investments in MSDLAF, all investments are in an internal investment pool.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1</u>	<u>1-3</u>
Cash Management Funds	\$ 172,725	\$ 172,725	\$ -
Fixed Income Funds	744,412	744,412	-
Investment Totals	<u>\$ 917,137</u>	<u>\$ 917,137</u>	<u>\$ -</u>

**Interest Rate Risk.** The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## NOTES TO FINANCIAL STATEMENTS

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### A. Deposits and Investments - Continued

**Credit Risk.** The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota School District owns a pro-rata share of each investment which is held in the name of the Funds. The District has no investment policy that would further limit its investment choices. As of June 30, 2007 the District's MSDLAF is rated AAA by S&P.

**Concentration of Credit Risk.** The District places no limit on the amount the district may invest in any one issuer. More than five percent of the district's investments are invested with MSDLAF Max Class (18.79%) and MSDLAF GIC 0807 (81.17%).

### B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Assets and the Balance Sheet. There are no estimates for allowances for uncollectible receivables.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 5,936	\$ -
Delinquent property taxes receivable (community service fund)	835	-
Prepaid food service meals (food service fund)	-	2,136
	<u>\$ 6,771</u>	<u>\$ 2,136</u>

## NOTES TO FINANCIAL STATEMENTS

### C. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Administration	\$	1,253
District Support Services		617
Regular Instruction		14,838
Vocational Education Instruction		572
Community Education and Services		16
Instructional Support Services		9,485
Pupil Support Services		18,867
Sites and Buildings		31,423
Total depreciation expense	\$	<u>77,071</u>

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated:				
Land	\$ 3	\$ -	\$ -	\$ 3
Construction in Progress	5,000	-	-	5,000
Total Capital Assets not being Depreciated	5,003	-	-	5,003
Capital Assets, being Depreciated:				
Eligible Pupil Transportation	491,492	3,265	-	494,757
Buildings	1,900,528	-	-	1,900,528
Equipment	781,467	45,996	-	827,463
Total Capital Assets being Depreciated	3,173,487	49,261	-	3,222,748
Less Accumulated Depreciation for:				
Eligible Pupil Transportation	432,918	20,347	-	453,265
Buildings	1,388,486	20,931	-	1,409,417
Equipment	554,187	35,793	-	589,980
Total Accumulated Depreciation	2,375,591	77,071	-	2,452,662
Total Capital Assets being Depreciated, net	797,896	(27,810)	-	770,086
Governmental Activities Capital Assets, net	\$ 802,899	\$ (27,810)	\$ -	\$ 775,089

## NOTES TO FINANCIAL STATEMENTS

### D. Short-Term Debt

During the year ended June 30, 2007, the District issued General Obligation Aid Anticipation Certificates of Indebtedness of \$743,460 for cash flow purposes. The Certificate of Indebtedness with principal and interest of \$777,844 is due September 5, 2007 and accrues interest of 4.50% per annum. Interest cost of \$27,315 has been accrued at June 30, 2007. The cost of issuance was expended during the year. The full faith and credit of the District is irrevocably pledged for the redemption of this certificate. The District borrowed an additional \$190,000 on a short term loan during the year ended June 30, 2007. Interest is paid every 45 days at a variable interest rate (4.25% at June 30, 2007). During the year ended June 30, 2007, the following changes occurred in short-term debt reported in the government wide and fund financial statements:

	Balance July 1	Issued	Redeemed	Balance June 30
General obligation aid anticipation certificates	\$ 643,144	\$ 743,460	\$ 643,144	\$ 743,460
Short term bank loan	125,000	190,000	-	315,000
Total Short Term Debt	<u>\$ 768,144</u>	<u>\$ 933,460</u>	<u>\$ 643,144</u>	<u>\$ 1,058,460</u>

### E. Long-Term Debt

Severance Payable. The District has twenty-three current employees who have qualified for severance benefits. The severance termination benefits were measured at the discounted present value of the expected future benefit payments. The discount rate used was 4.71%. Current year severance payments, as were prior year severance payments, were made from the general fund of the governmental funds.

Years Ending June 30,	
2008	\$ 85,801
2009	27,502
2010	27,483
2011	<u>421,491</u>
Total Severance payments	562,277
Less: Discounted Time Value	<u>(80,695)</u>
Present Value of severance payments	<u>\$ 481,582</u>

Changes in Long-Term Debt. During the year ended June 30, 2007, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Severance payable	\$ 502,279	\$ -	\$ 20,697	\$ 481,582	\$ 81,942

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2006 Payable 2007 was \$149,975,550.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. PENSION PLANS

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

#### A. Teachers Retirement Association

##### 1. Plan Description

All teachers employed by the Independent School District No. 2887 are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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### A. Teachers Retirement Association - Continued

#### 1. Plan Description - Continued

With these provisions:

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

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

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website [www.tra.state.mn.us](http://www.tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing to, or calling, Teachers Retirement Association, 60 Empire Drive, Suite 400, St. Paul, MN 55103-1855, (651) 296-6449 or 1-800-657-3853.

## NOTES TO FINANCIAL STATEMENTS

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### A. Teachers Retirement Association - Continued

#### 2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates are 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members will rise to 5.5 percent and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2006 was approximately \$3.431 billion.

The District contributions for the years ending June 30, 2007, 2006, and 2005 were \$77,698, \$82,115, and \$80,299, respectively, equal to the required contributions for each year as set by state statute.

### B. Public Employees Retirement Association

#### 1. Plan Description

All full-time and certain part-time employees, other than teachers of the Independent School District No. 2887, are covered by defined benefit plans 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.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

## NOTES TO FINANCIAL STATEMENTS

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### **B. Public Employees Retirement Association – Continued**

#### *1. Plan Description - Continued*

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

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

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

#### *2. Funding Policy*

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.25% effective January 1, 2007. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2007, 2006, and 2005 were \$30,473, \$28,060, and \$25,278, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

### **NOTE 5. OTHER INFORMATION**

#### **A. 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 for which the government has joined together with other governments (school districts) in self-insured insurance plans and public entity risk pools.

The District has joined together with other governmental entities in the State of Minnesota in the Tri-State Group Self-Insured General Property and Casualty Insurance Plan and in the Minnesota School Board Association Group Self-Insured Workers' Compensation Plan, public entity risk pools currently operating as a common risk management and insurance program for member school districts. The District pays an annual premium to these plans for its general property and casualty coverage and its worker's compensation coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of these plans believe assessment to participating districts for future losses sustained is extremely remote.

## NOTES TO FINANCIAL STATEMENTS

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### **A. Risk Management- Continued**

The District is self-insured for unemployment compensation. The State of Minnesota allows districts to levy local taxpayers for estimated future unemployment claims. These levy amounts are legally segregated for future use in the General Fund, Reserved For Reemployment Fund Balance. Claims paid for unemployment are recorded against this reserve account. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The District continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **B. Contingent Liabilities**

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

### **C. Joint Ventures**

The District, in conjunction with other School Districts, created the Crow River Special Education Cooperative, a joint powers agreement for the administration, financing and operation of an education cooperative. The board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, all funds and property remaining after payment of all outstanding debts and obligations shall be distributed to the remaining member districts in the proportion which the total enrollment of all students enrolled in a member district in grades K-12. Prior to dissolution, the remaining member districts may unanimously agree in writing upon a different method of distribution. Separate financial statements of the joint venture may be obtained from the Cooperative.

### **NOTE 6. ISSUED BUT NON-EFFECTIVE ACCOUNTING PRONOUNCEMENT**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The statement issued, but not implemented, that will significantly affect the District is statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment benefits other than Pensions." This statement will affect the way the District accounts for and reports their postemployment healthcare and other non-pension benefits. This statement will be implemented at the District in the year ending June 30, 2010.

INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
BUDGETARY COMPARISON SCHEDULES - GENERAL FUND  
YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget-Positive (Negative)
REVENUES				
Local Property Tax Levies	\$ 332,137	\$ 327,107	\$ 321,375	\$ (5,732)
Other Local and County Sources	84,900	78,600	334,893	256,293
State Sources	3,104,314	2,901,010	2,899,298	(1,712)
Federal Sources	120,729	156,870	104,839	(52,031)
Local Sales and Insurance Recovery	-	-	31	31
Total Revenues	3,642,080	3,463,587	3,660,436	196,849
EXPENDITURES				
Administration	225,958	225,958	282,818	(56,860)
District Support Services	105,099	105,099	141,371	(36,272)
Regular Instruction	1,723,600	1,724,313	1,970,791	(246,478)
Vocational Instruction	92,083	92,083	84,638	7,445
Special Education Instruction	363,999	363,999	321,593	42,406
Instructional Support Services	184,006	184,006	281,291	(97,285)
Pupil Support Services	329,546	329,546	389,615	(60,069)
Sites and Buildings	315,620	315,620	344,138	(28,518)
Fiscal and Other Fixed Cost Programs	73,000	73,000	66,780	6,220
Total Expenditures	3,412,911	3,413,624	3,883,035	(469,411)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	229,169	49,963	(222,599)	(272,562)
OTHER FINANCING SOURCES (USES)				
Sales of Equipment	-	-	200	-200
NET CHANGE IN FUND BALANCES	229,169	49,963	(222,399)	(272,362)
FUND BALANCES - Beginning	398,042	398,042	398,042	-
FUND BALANCES - Ending	\$ 627,211	\$ 448,005	\$ 175,643	\$ (272,362)

INDEPENDENT SCHOOL DISTRICT NO. 2887  
 BROWNTON, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULES - FOOD SERVICE FUND  
 YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget-Positive (Negative)
REVENUES				
Other Local and County Sources	\$ -	\$ -	\$ 171	\$ 171
State Sources	5,500	5,500	9,358	3,858
Federal Sources	39,500	39,500	53,085	13,585
Local Sales and Insurance Recovery	91,500	91,500	98,092	6,592
Total Revenues	136,500	136,500	160,706	24,206
EXPENDITURES				
Pupil Support Services	144,424	144,424	157,476	(13,052)
Total Expenditures	144,424	144,424	157,476	(13,052)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(7,924)	(7,924)	3,230	11,154
FUND BALANCES - Beginning	12,761	12,761	12,761	-
FUND BALANCES - Ending	\$ 4,837	\$ 4,837	\$ 15,991	\$ 11,154

INDEPENDENT SCHOOL DISTRICT NO. 2887  
 BROWNTON, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULES - COMMUNITY SERVICE FUND  
 YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget-Positive (Negative)
REVENUES				
Local Property Tax Levies	\$ 30,018	\$ 30,018	\$ 32,301	\$ 2,283
Other Local and County Sources	22,350	22,350	27,963	5,613
State Sources	11,363	11,743	24,916	13,173
Total Revenues	63,731	64,111	85,180	21,069
EXPENDITURES				
Community Education and Services	66,989	68,189	84,598	(16,409)
Total Expenditures	66,989	68,189	84,598	(16,409)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,258)	(4,078)	582	4,660
FUND BALANCES - Beginning	7,853	7,853	7,853	-
FUND BALANCES - Ending	\$ 4,595	\$ 3,775	\$ 8,435	\$ 4,660

**INDEPENDENT SCHOOL DISTRICT NO. 2887  
BROWNTON, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007**

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**1. BUDGETARY INFORMATION**

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the school board for review. The school board holds public hearings and a final budget must be prepared and adopted no later than one week after the school board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2007, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The school board made several supplemental budgetary appropriations throughout the year.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2007, expenditures exceeded appropriations in the general fund, the food service fund and the community service fund (the legal level of budgetary control) by \$469,411, \$13,052 and \$16,409, respectively. These over expenditures were funded by greater than anticipated revenues and available fund balance in the case of the general fund, and by greater than anticipated revenues in the case of the food service fund and the community service fund.



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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Members of the School Board  
Independent School District No. 2887  
Brownton, Minnesota

We have audited the financial statements of the Independent School District No. 2887 as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Independent School District No. 2887 complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, others within the organization and the School Board and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP  
Mankato, Minnesota  
December 7, 2007

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1911 Excel Drive ■ Mankato, Minnesota 56001 ■ Phone 507.387.6031 ■ Fax 507.387.6436 ■ EOE

## INDEPENDENT SCHOOL DISTRICT NO. 2887

## BROWNTON, MINNESOTA

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE  
YEAR ENDED JUNE 30, 2007GENERAL FUND

Total Revenues	\$ 3,660,436
Total Expenditures	3,883,035
Fund Balance	
Reserved:	
4.03 Staff Development	69,997
4.05 Deferred Maintenance	(22,361)
4.06 Health and safety	24,208
4.11 Severance Pay	25,083
4.24 Operating capital	83,178
4.27 Disabled Accessibility	8,930
4.41 Basic Skills	323
4.49 Safe School Levy	(950)
Unreserved:	
4.22 Unreserved/Undesignated	(12,765)

TRUST

Total Revenues	\$ 3,152
Total Expenditures	4,410
Fund Balance	
Unreserved:	
4.22 Unreserved/Undesignated	23,869

FOOD SERVICE

Total Revenues	\$ 160,706
Total Expenditures	157,476
Fund Balance	
Unreserved:	
4.22 Unreserved/Undesignated	15,991

COMMUNITY SERVICE

Total Revenues	\$ 85,180
Total Expenditures	84,598
Fund Balance	
Reserved:	
4.31 Community Education	(27,217)
4.32 Early Childhood-Family Education	15,672
4.44 School Readiness	1,488
Unreserved:	
4.22 Unreserved/Undesignated	18,492



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S 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**

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Members of the School Board  
Independent School District No. 2887  
Brownton, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2887 as of and for the year ended June 30, 2007, which collectively comprise the Independent School District No. 2887's basic financial statements and have issued our report thereon dated December 7, 2007. 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. 2887's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 2887's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2887's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies listed below to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. We believe the deficiencies listed below are material weaknesses.

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### Segregation of Duties

*Condition:* The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

*Criteria:* A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

*Cause:* The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

*Effect:* Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. School Board oversight will mitigate some of the effect.

*Recommendation:* While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

*Response:* Due to cost constraints, there will be no further administrative employees added. The District does not intend to write a corrective action plan for something they believe cannot be corrected without additional funding.

### Preparation of Financial Statements

*Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

*Criteria:* A good system of internal control contemplates an adequate system for drafting of the financial statements.

*Cause:* The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

*Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation:* This control deficiency is not unusual in a District of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response:* Due to cost constraints, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements. The District does not intend to write a corrective action plan for something they believe cannot be corrected without additional funding.

Significant Journal Entries

*Condition:* During the course of our engagement, we proposed material audit adjustments to the trial balance that would not have been identified as a result of the District's existing internal controls.

*Criteria:* A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

*Cause:* The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year end adjustments to the trial balance.

*Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation:* A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

*Response:* Due to cost constraints, the District will continue to have the auditors propose material audit adjustments to the trial balance. The District does not intend to write a corrective action plan for something they believe cannot be corrected without additional funding.

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

We also noted certain immaterial instances of internal control that we have reported to management of Independent School District No. 2887, in a separate letter dated December 7, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2887's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 certain immaterial instances of noncompliance that we have reported to management of Independent School District No. 2887, in a separate letter dated December 7, 2007.

This report is intended solely for the information and use of management, others within the organization and the School Board and is not intended to be, and should not be, used by anyone other than these specified parties.

*Eide Bailly LLP*

Eide Bailly LLP  
Mankato, Minnesota  
December 7, 2007



## COMMUNICATION TO THE AUDIT COMMITTEE

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Members of the School Board  
Independent School District No. 2887  
Brownton, Minnesota

We have audited the financial statements of Independent School District No. 2887 for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Independent School District No. 2887. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Independent School District No. 2887's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Independent School District No. 2887 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2007. We noted no transactions entered into by Independent School District No. 2887 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the state aid receivables is based on estimated state revenues as provided by the State of Minnesota and projected student pupil units at year end. Management's estimate of capital assets is based on an appraisal of capital assets as of July 1, 2003, capital assets purchased after July 1, 2003 are based on actual cost. Management's estimate of capital asset useful lives is based on the Association of School Business Officials International guidance. Management's estimate of present value of future severance benefits was based on a discount rate and present information about future potential payouts.

We evaluated the key factors and assumptions used to develop the state aid receivables, appraisal of capital assets prior to July 1, 2003, capital asset useful lives, and severance liability in determining that they are reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Independent School District No. 2887's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Independent School District No. 2887, either individually or in the aggregate, indicate matters that could have a significant effect on the Independent School District No. 2887's financial reporting process.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Independent School District No. 2887's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Other Matters

*Issued But Not-Effective Accounting Pronouncement*

The Governmental Accounting Standards Board (GASB) has issued statement No. 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions." This statement provides that post-employment benefits offered to employees are to be measured and recognized on the full accrual basis of accounting over a period that approximates an employee's years of service. This statement will be implemented at the District in the year ending June 30, 2010.

The District does not obtain the backs of cancelled checks, from the bank, which contains the claim for payment as required by State Statutes. The bank sends back a copy of the front of the check. We recommend the District obtain the cancelled checks or an acceptable copy of the checks via electronic format documenting the proper cancelled checks from the bank which would include both the front and back of the check.

The District made a donation in August of 2007 from the general fund to the Stewart City Fire Department upon the Fire Departments request for a donation. There is no statutory authority for a district to make donations to other entities because it is not a public purpose of the District. We recommend the District not make any donations to individuals or other entities and follow the public purpose test for all disbursements.

The District paid excess fund-raising amounts earned by a student, for a class trip, back to the student. This was done under the presumption that the student raised the funds. However, the funds were raised in the name of the school district and should not have been used for a private benefit. We recommend the District distribute evenly to all students any excess funds earned.

The District used staff development funds for food gifts for staff to improve morale. Staff development funds should be used in accordance with State Statute requirements. There is no statutory authority for Districts to gift money to individuals. We recommend the District not make any gifts to individuals, or other entities, and follow the public purpose test for all disbursements.

The District does not have a record keeping system for gate receipts at District events. Without this, there is a risk of misappropriation of assets. We recommend the District implement control procedures to verify revenue sources and supporting documentation of receipts.

Members of the School Board  
Independent School District No. 2887

The District did not approve, at a board meeting, each vendor of the Chase credit card payment, the amount approved was for Chase only. Each vendor must have approval before payment is made. Approving Chase does not necessarily approve each purchase made with the credit card. We recommend the District make a listing of all vendors and amounts of credit card payments and attach this list to the credit card invoice when approving disbursements.

This information is intended solely for the use of the School Board and management of Independent School District No. 2887 and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Eide Bailly LLP  
Mankato, Minnesota  
December 7, 2007