FINANCIAL REPORT
JUNE 30, 2009

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA

McLeod West

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA

LIST OF ELECTED SCHOOL OFFICIALS

Board of Education

Tom Lemke	Chair
Roger Draeger	Vice-Chair
Robin Sikkila	Clerk
Todd Kalenberg	Treasurer
Jason Lindeman	Director
Brenda Miller	Director

INDEPENDENT AUDITOR'S REPORT

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, 2009, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2887 as of June 30, 2009, 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 10, 2009, 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 considered in assessing the results of our audit.

Members of the School Board
Independent School District No. 2887

The budgetary comparison information, as listed on pages 27 through 30, is not a required part of the financial statements but is 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.

Independent School District No. 2887 has not presented the Management Discussion and Analysis as required by accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board has determined the Management Discussion and Analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 2887's basic financial statements. The introductory section, uniform financial accounting and reporting standards, and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The uniform financial accounting and reporting standards 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Eide Bailly LLP

Mankato, Minnesota
December 10, 2009

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS	
Cash and Investments	$ 645,845
Receivables:	
Current Property Taxes Receivable	236,417
Delinquent Property Taxes Receivable	9,913
Accounts Receivable	854
Due from Minnesota Department of Education	270,875
Due from Federal Through Minnesota Department of Education	68,467
Capital Assets	
Land	3
Other Capital Assets, Net of Depreciation	250,781
Total Assets	1,483,155
LIABILITIES	
Accounts Payable	9,096
Due to Other Minnesota School Districts	14,642
Due to Other Governmental Units	279
Unamortized Bond Premium	29,728
Property Taxes Levied for Subsequent Years	385,873
Noncurrent Liabilities	
Due in More Than One Year	2,585,000
Total Liabilities	3,024,618
NET ASSETS	
Invested in Capital Assets	250,784
Restricted for:	
Community Service	33,317
Other Purposes	(45,586)
Unrestricted	(1,779,978)
TOTAL NET ASSETS	$ (1,541,463)

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES					
Administration	$ 251,207	$ -	$ -	$ -	$ (251,207)
District Support Services	163,144	-	-	-	(163,144)
Regular Instruction	1,908,952	87,260	164,627	15,101	(1,641,964)
Vocational Instruction	31,786	-	1,896	-	(29,890)
Special Education Instruction	272,273	-	95,520	-	(176,753)
Community Education and Services	55,196	11,138	9,274	-	(34,784)
Instructional Support Services	218,493	-	1,349	-	(217,144)
Pupil Support Services	550,907	38,201	27,481	-	(485,225)
Sites and Buildings	697,791	1,907	16,712	-	(679,172)
Fiscal and Other Fixed Cost Programs	179,709	-	158	-	(179,551)
Total Governmental Activities	$ 4,329,458	$ 138,506	$ 317,017	$ 15,101	(3,858,834)
GENERAL REVENUES					
Property Taxes and Other Local Sources					418,318
State Aid Not Restricted to Specific Purposes					1,828,736
Interest Earnings					7,622
Miscellaneous					29,559
Total General Revenues					2,284,235
CHANGES IN NET ASSETS					(1,574,599)
NET ASSETS - BEGINNING					33,136
NET ASSETS - ENDING					$ (1,541,463)

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Food Service	Community Service	Totals
ASSETS				
Cash and Investments	$ 597,451	$ -	$ 48,394	$ 645,845
Receivables				
Current Property Taxes	213,644	-	22,773	236,417
Delinquent Property Taxes	9,024	-	889	9,913
Accounts Receivable	854	-	-	854
Due from Minnesota Department of Education	269,478	-	1,397	270,875
Due from Federal Through Minnesota Department of Education	68,467	-	-	68,467
TOTAL ASSETS	$ 1,158,918	$ -	$ 73,453	$ 1,232,371
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 9,096	$ -	$ -	$ 9,096
Due to Other Minnesota School Districts	14,642	-	-	14,642
Due to Other Governmental Units	279	-	-	279
Deferred Revenue - Delinquent Taxes	9,024	-	889	9,913
Property Taxes Levied for Subsequent Years	345,791	-	40,082	385,873
Total Liabilities	378,832	-	40,971	419,803
FUND BALANCES				
Reserved for:				
Health and Safety	(45,586)	-	-	(45,586)
Community Education	-	-	13,687	13,687
Early Childhood Family Education	-	-	13,615	13,615
School Readiness	-	-	1,096	1,096
Unreserved, unrestricted	825,672	-	4,084	829,756
Total Fund Balances	780,086	-	32,482	812,568
TOTAL LIABILITIES AND FUND BALANCES	$ 1,158,918	$ -	$ 73,453	$ 1,232,371

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances for Governmental Funds	$ 812,568
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 $2,094,844 and the accumulated depreciation is $1,844,060.	250,784
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.	9,913
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:	
Bonds Payable	(2,585,000)
A premium for underwriter fees received with the issuance of long-term debt are amortized over the term of the debt. Total unamortized bond premium liabilities are $29,728 and the accumulated amortization is $0.	(29,728)
Total Net Assets for Governmental Activities	$ (1,541,463)

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Food Service	Community Service	Totals
REVENUES				
Local Property Tax Levies	$ 385,999	$ -	$ 30,480	$ 416,479
Other Local and County Sources	210,698	334	14,024	225,056
State Sources	1,943,350	3,268	12,805	1,959,423
Federal Sources	88,334	23,033	-	111,367
Local Sales and Insurance Recovery	1,088	37,801	-	38,889
Total Revenues	2,629,469	64,436	57,309	2,751,214
EXPENDITURES				
Administration	251,104	-	-	251,104
District Support Services	162,919	-	-	162,919
Regular Instruction	2,213,337	-	-	2,213,337
Vocational Instruction	31,005	-	-	31,005
Special Education Instruction	272,273	-	-	272,273
Community Education and Services	-	-	55,180	55,180
Instructional Support Services	201,551	-	-	201,551
Pupil Support Services	450,458	94,934	-	545,392
Sites and Buildings	290,514	-	-	290,514
Fiscal and Other Fixed Cost Programs	136,251	-	-	136,251
Total Expenditures	4,009,412	94,934	55,180	4,159,526
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,379,943)	(30,498)	2,129	(1,408,312)
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	2,585,000	-	-	2,585,000
Sale of Capital Assets	1,807	-	-	1,807
Transfers In (Out)	(4,592)	4,592	-	-
Total Other Financing Sources (Uses)	2,582,215	4,592	-	2,586,807
NET CHANGE IN FUND BALANCES	1,202,272	(25,906)	2,129	1,178,495
FUND BALANCES - Beginning	(422,186)	25,906	30,353	(365,927)
FUND BALANCES - Ending	$ 780,086	$ -	$ 32,482	$ 812,568

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, 2009

Total Net Change in Fund Balances for Governmental Funds	$ 1,178,495
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 ($63,205) exceeds capital outlays ($2,999) in the current period.	(60,206)
In governmental funds, issuance of new debt is reported as a source of financing (in the amount of net proceeds received). However, in the statement of activities, a new debt issuance is not revenue, rather it constitutes a long-term liability in the statement of net assets.	(2,585,000)
The loss due to the impairment of an asset is not recorded in the governmental funds. In the statement of activities, the effect of this impairment loss is to reduce the basis of the impaired asset.	(395,570)
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.	315,572
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.	(29,728)
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.	1,838
Change in Net Assets of Governmental Activities	$ (1,574,599)

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2009

	Private Purpose Trust Fund
ASSETS	
Cash and Investments	$ 1,030,842
LIABILITIES	
Accounts Payable	1,000
NET ASSETS	
Reserved for Scholarships	1,029,842
TOTAL NET ASSETS	$ 1,029,842

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Fund
ADDITIONS	
Other Local and County Revenues	$ 1,019,433
DEDUCTIONS	
Pupil Support Services	13,220
Change in Net Assets	1,006,213
Net Assets - Beginning of Year	23,629
Net Assets - End of Year	$ 1,029,842

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

GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement 39 “Determining Whether Certain Organizations are Component Units” 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 has no component units.

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. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, 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. The effect of inter-fund activity has been removed from these statements.

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.

(continued on next page)

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.

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.

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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 District's primary operating fund. It accounts for all financial resources of the District, 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 *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 fund* is used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District'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.

As a general rule, the effect of inter-fund 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.

(continued on next page)

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 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, fair value.

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 and certain receivables are 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.

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 2008 which are not payable until 2009 less amounts received before June 30, 2009. Delinquent taxes receivable represent levies collectible during 2008 and prior years. Delinquent taxes are recorded as deferred revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2008, but not payable until 2009 and are not expendable by the District until the 2009-2010 school year, adjusted for the property tax shift amount.

(continued on next page)

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

3. Inventories and Commodities

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or 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.

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.

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

Assets	Years
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

(continued on next page)

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

5. Compensated Absences and Termination Benefits

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, 2009 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, may elect to participate in the current severance package or participate in a 403(b) matching annuity plan provided by the District. 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.

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 in the District's government-wide financial statements are equal to the District's community service fund reserved balances plus the unreserved balance and deferred revenue for delinquent taxes. These amounts are required to be reserved due to Minnesota Statutes.

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E. 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. Transfers have been removed from the government-wide financial statements.

F. 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.

G. 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 $56,612 in property tax revenues and general education aid; an additional amount of $4,412 was shifted 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 $61,024 in the general fund. Of this total shifted amount, $26,261 was for referendum levies shifted at 31 percent 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, and $28,310 for reemployment shifted at 100 percent of the 2008 payable 2009 levy limitation and certification.

The referendum, additional referendum, and reemployment levy shift amounts are an early revenue recognition and have increased the current year's 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.

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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, 2009, 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.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2009, expenditures exceeded appropriations in the food service fund (the legal level of budgetary control) by $11,934. These over expenditures were funded by available fund balance and a transfer from the general fund.

(continued on next page)

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Cash 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 percent 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, 2009, none of the District's bank balances were exposed to custodial credit risk.

2. Investments

As of June 30, 2009, the District had the following investments:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less Than 1	1-3
Cash Management Funds (Governmental Funds)	$ 123,743	$ 123,743	$ -
Cash Management Funds (Trust Fund)	1,010,433	1,010,433	-
Investment Totals	$ 1,134,176	$ 1,134,176	$ -

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.

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, 2009, the District's MSDLAF were 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 (100.00 percent).

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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:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	$ 9,024	$ -
Delinquent property taxes receivable (community service fund)	889	-
	$ 9,913	$ -

C. Capital Assets

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

Administration	$ 103
District Support Services	225
Regular Instruction	14,186
Vocational Education Instruction	781
Community Education and Services	16
Instructional Support Services	16,941
Pupil Support Services	5,515
Sites and Buildings	25,438
Total Depreciation Expense	$ 63,205

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C. Capital Assets - Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$ 3	$ -	$ -	$ 3
Total Capital Assets not being Depreciated	3	-	-	3
Capital Assets being Depreciated:				
Eligible Pupil Transportation	494,756	-	-	494,756
Buildings	1,102,528	-	1,092,528	10,000
Equipment	890,128	2,999	-	893,127
Total Capital Assets being Depreciated	2,487,412	2,999	1,092,528	1,397,883
Less Accumulated Depreciation for:				
Eligible Pupil Transportation	467,909	7,553	-	475,462
Buildings	683,228	13,730	696,958	-
Equipment	629,718	41,922	-	671,640
Total Accumulated Depreciation	1,780,855	63,205	696,958	1,147,102
Total Capital Assets being Depreciated, net	706,557	(60,206)	395,570	250,781
Governmental Activities Capital Assets, net	$ 706,560	$ (60,206)	$ 395,570	$ 250,784

D. Short-Term Debt

During the year ended June 30, 2009, the District issued Aid Anticipation Certificates of $1,225,000 for cash flow purposes. The Certificate of Indebtedness with principal and interest (accrued at 2.25 percent per annum) of $1,252,563 was paid-in-full during the year ended June 30, 2009. The cost of issuance was expended during the year. The District redeemed the remaining $140,000 of the short term loan during the year ended June 30, 2009. Interest on the short term loan was paid every 45 days at a variable interest rate. During the year ended June 30, 2009, 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
Aid Anticipation Certificates Payable	$ 743,831	$ 1,225,000	$ 1,968,831	$ -
Line of Credit	140,000	-	140,000	-
Total Short Term Debt	$ 883,831	$ 1,225,000	$ 2,108,831	$ -

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E. Leases

1. Operating Leases

The District entered into the following lease agreements:

Equipment/Property	Beginning	Years	Payment	Frequency	Expires
Copier	March 2005	3	$ 505	monthly	March 2008
Buses	September 2007	3	$ 51,435	annually	Terminated
Copier/Fax Machine	May 2008	2	$ 1,188	monthly	Terminated

Total cost for such leases were $67,832 for the year ended June 30, 2009.

F. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds during 2009 to provide funds for reorganization of the District. General obligation bonds are direct obligations and pledge the full faith and credit of the District and will be paid with special levy assessments to the taxpayers of the District. The original amount of general obligation bonds issued was $2,585,000. General obligation bonds currently outstanding are as follows:

Bond Issue and Purpose	Interest Rates	Amount
G.O. Taxable Reorganization Operating Debt Bonds of 2009, due in annual installments of $480,000 to $550,000 through February 1, 2015	2.00 percent to 3.35 percent	$2,585,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending	Governmental Activities	
June 30,	Principal	Interest
2010	$ -	$ -
2011	480,000	68,855
2012	500,000	59,255
2013	520,000	48,255
2014	535,000	34,475
2015	550,000	18,425
Total	$2,585,000	$ 229,265

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F. Long-Term Debt - Continued

Changes in Long-Term Debt. During the year ended June 30, 2009, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
Severance Payable	$ 315,572	$ -	$ 315,572	$ -	$ -
Bonds Payable	-	2,585,000	-	2,585,000	-
	$ 315,572	$ 2,585,000	$ 315,572	$ 2,585,000	$ -

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 2008 Payable 2009 was $165,125,450.

G. Transfers

The general fund transferred $4,592 to the food service fund to eliminate the deficit equity fund balance.

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 Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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

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A. Teachers Retirement Association - Continued

1. Plan Description - Continued

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

Tier I	Step Rate Formula	Percentage
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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3 percent per year early retirement reduction factors for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

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

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

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

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.

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A. Teachers Retirement Association - Continued

1. Plan Description – Continued

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

2. Funding Policy

Minnesota Statutes Chapter 354.42 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. During fiscal year 2009, 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 were 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members rose 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, 2008 was approximately $3.645 billion.

The District's contributions for the years ending June 30, 2009, 2008, and 2007 were $50,564, $77,406, and $77,698, 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 of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are 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.

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B. Public Employees Retirement Association - Continued

1. Plan Description - Continued

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and 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 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF, PEPFF, and PECF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 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 were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 9.4 percent of their annual covered salary in 2009. PECF members are required to contribute 5.83 percent of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.5 percent for Coordinated Plan PERF members, 14.1 percent for PEPFF members, and 8.75 percent for PECF members. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2009, 2008, and 2007 were $26,223, $30,216, and $30,473, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

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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.

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.

D. Impairment Loss

During the year ended June 30, 2009, the District recorded an impairment loss to its school building located in the city of Brownton. In the government-wide financial statements, the impairment loss recorded by the District was $395,570.

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E. Consolidation

As of July 1, 2009, McLeod West Public Schools No. 2887 was consolidated with Glencoe - Silver Lake Public Schools No. 2859. Existing obligations will be paid using resources obtained from the issuance of the General Obligation Reorganization Operating Debt Bonds. After all obligations are met, the District will disburse the remainder of its assets in accordance with Minnesota State Statutes.

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget-Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
Local Property Tax Levies	$ 402,882	$ 402,882	$ 385,999	$ (16,883)
Other Local and County Sources	74,500	74,500	210,698	136,198
State Sources	1,913,866	1,986,994	1,943,350	(43,644)
Federal Sources	93,387	93,387	88,334	(5,053)
Local Sales and Insurance Recovery	-	-	1,088	1,088
Total Revenues	2,484,635	2,557,763	2,629,469	71,706
EXPENDITURES				
Administration	229,547	229,547	251,104	(21,557)
District Support Services	108,554	125,348	162,919	(37,571)
Regular Instruction	1,381,887	2,592,863	2,213,337	379,526
Vocational Instruction	84,184	84,184	31,005	53,179
Special Education Instruction	329,245	329,245	272,273	56,972
Community Education and Services	-	-	-	-
Instructional Support Services	212,412	212,412	201,551	10,861
Pupil Support Services	380,649	380,649	450,458	(69,809)
Sites and Buildings	302,872	302,872	290,514	12,358
Fiscal and Other Fixed Cost Programs	199,490	199,490	136,251	63,239
Total Expenditures	3,228,840	4,456,610	4,009,412	447,198
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(744,205)	(1,898,847)	(1,379,943)	518,904
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	2,585,000	2,585,000
Sale of Capital Assets	-	-	1,807	1,807
Transfers (Out)	-	-	(4,592)	(4,592)
Total Other Financing Sources (Uses)	-	-	2,582,215	2,582,215
NET CHANGE IN FUND BALANCES	(744,205)	(1,898,847)	1,202,272	3,101,119
FUND BALANCES - Beginning	(422,186)	(422,186)	(422,186)	-
FUND BALANCES - Ending	$ (1,166,391)	$ (2,321,033)	$ 780,086	$ 3,101,119

See Notes to Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget-Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
Other Local and County Sources	$ -	$ -	$ 334	$ 334
State Sources	5,600	5,600	3,268	(2,332)
Federal Sources	49,500	49,500	23,033	(26,467)
Local Sales and Insurance Recovery	33,854	33,854	37,801	3,947
Total Revenues	88,954	88,954	64,436	(24,518)
EXPENDITURES				
Pupil Support Services	83,000	83,000	94,934	(11,934)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,954	5,954	(30,498)	(36,452)
OTHER FINANCING SOURCES				
Transfers In	-	-	4,592	4,592
NET CHANGE IN FUND BALANCE	5,954	5,954	(25,906)	(31,860)
FUND BALANCES - Beginning	25,906	25,906	25,906	-
FUND BALANCES - Ending	$ 31,860	$ 31,860	$ -	$ (31,860)

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	With Final Budget- Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
Local Property Tax Levies	$ 35,311	$ 35,311	$ 30,480	$ (4,831)
Other Local and County Sources	13,910	13,910	14,024	114
State Sources	11,279	11,279	12,805	1,526
Total Revenues	60,500	60,500	57,309	(3,191)
EXPENDITURES				
Community Education and Services	63,000	63,000	55,180	7,820
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,500)	(2,500)	2,129	4,629
FUND BALANCES - Beginning	30,353	30,353	30,353	-
FUND BALANCES - Ending	$ 27,853	$ 27,853	$ 32,482	$ 4,629

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, 2009, 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. 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, 2009, expenditures exceeded appropriations in the food service fund (the legal level of budgetary control) by $11,934. These over expenditures were funded by available fund balance and a transfer from the general fund.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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, 2009, and have issued our report thereon dated December 10, 2009.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Independent School District No. 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 10, 2009

INDEPENDENT SCHOOL DISTRICT NO. 2887
BROWNTON, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2009

GENERAL FUND

Total Revenues	$ 2,629,469
Total Expenditures	4,009,412
Fund Balance	
Reserved:	
4.06 Health and Safety	(45,586)
Unreserved:	
4.22 Unreserved/Undesignated	825,672

FOOD SERVICE

Total Revenues	$ 64,436
Total Expenditures	94,934
Fund Balance	
Unreserved:	
4.22 Unreserved/Undesignated	-

COMMUNITY SERVICE

Total Revenues	$ 57,309
Total Expenditures	55,180
Fund Balance	
Reserved:	
4.31 Community Education	13,687
4.32 Early Childhood-Family Education	13,615
4.44 School Readiness	1,096
Unreserved:	
4.22 Unreserved/Undesignated	4,084

TRUST

Total Revenues	$ 1,019,433
Total Expenditures	13,220
Fund Balance	
Unreserved:	
4.22 Unreserved/Undesignated	1,029,842

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

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, 2009, which collectively comprise the Independent School District No. 2887's basic financial statements and have issued our report thereon dated December 10, 2009. 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 opinions 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 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: Segregation of Duties, Preparation of Financial Statements, Significant Journal Entries, Journal Entry Approval, and Check Signing.

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 Independent School District No. 2887's internal control.

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, of the significant deficiencies describe above, we believe the Segregation of Duties, Preparation of Financial Statements, Significant Journal Entries, Journal Entry Approval, and Check Signing to be material weaknesses.

<u>Compliance and Other Matters</u>

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Independent School District No. 2887, in the communication with those charged with governance dated December 10, 2009.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response, and accordingly, we express no opinion on it.

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

Eide Bailly LLP

Mankato, Minnesota
December 10, 2009

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

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.

Journal Entry Approval

Condition: The District does not have an internal control process to provide for the oversight and approval of journal entries.
Criteria: A good system of internal control would prevent an employee from being able to complete a process from inception until completion that would include oversight controls.
Cause: The District does not have oversight of approval of system journal entries in internal control procedures.
Effect: This control deficiency could result in an error to the accounting system.
Recommendation: We recommend the District should have another staff or Board member review and sign the journal entries recorded to the accounting system and this individual should have look up access to the system to verify that only approved journal entries have been recorded in the accounting system.
Response: The District will assign a staff member to review and approve all journal entries and verify only these entries exist on the accounting system.

Check Signing

Condition: The District does not have an internal control process to provide for the segregation of duties related to check signing. The business manager and payroll clerk have access to blank checks and printing of checks which allows them to have the capability to process a check through the system from inception to completion. The signatures are automatically inserted during the printing process.
Criteria: A good system of internal control would prevent an employee from being able to complete a process from inception until completion.
Cause: The District did not have segregation of check signing duties.
Effect: This control deficiency could result in a risk of loss by theft of cash.
Recommendation: We recommend the District should separate the check signing process from the system voucher, payment, payroll process, and print process.
Response: The District will change the check signing process so that the business manager and payroll clerk do not have the capability to sign checks using the system generated check signing process.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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 for the year ended June 30, 2009, and have issued our report thereon dated December 10, 2009. 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 February 5, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 10, 2009.

Members of the School Board
Independent School District No. 2887

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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 fiscal year 2009. We noted no transactions entered into by Independent School District No. 2887 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

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.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: state aid, property taxes, accounts, and interest receivables, and interest payable (general fund); commodity revenue (food service fund); property taxes receivable (community service fund); and the Government-wide financial statement entries.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as an accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2009.

Management 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.

Other Audit Findings or Issues

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.

During the year-end audit process we did not identify any insignificant compliance matters over Minnesota laws and regulations.

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

Mankato, Minnesota
December 10, 2009