INDEPENDENT SCHOOL DISTRICT NO. 831
FOREST LAKE, MINNESOTA

Financial Report

Year Ended
June 30, 2011

Table of Contents

Table of Contents (continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration
Year Ended June 30, 2011

SCHOOL BOARD

	Board Position During 2010–2011
Robert Rapheal	Chairperson (President)
Erin Turner	Vice Chairperson (Vice President)
Dan Kieger	Treasurer
Karen Morehead	Clerk
Bill Bresin	Director
Kathy Bystrom	Director
Joe Gafft	Director

ADMINISTRATION

Linda Madsen	Superintendent
Lawrence Martini	Director of Business Services

FINANCIAL SECTION

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Kenneth W. Malloy, CPA
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board of
Independent School District No. 831
Forest Lake, 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. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information presented has been derived from the District's financial statements for the year ended June 30, 2010, and in our report dated November 17, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and the 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 the District as of June 30, 2011, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" during the year ended June 30, 2011.

The financial statements include prior year partial comparative information. Such information does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which such partial information was derived.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this 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. This 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund statements and schedules and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The combining and individual fund statements and schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplemental information and the UFARS Compliance Table have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

November 21, 2011

This section of Independent School District No. 831, Forest Lake, Minnesota's (the District) annual financial report presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

Government-Wide Statements

The government-wide statements (Statement of Net Assets and Statement of Activities) 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, except for the fiduciary funds. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net assets are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of 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 government-wide financial statements the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called nonmajor funds. Detailed financial information for nonmajor funds can be found in the combining and individual fund statements and schedules section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

Governmental Funds – 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 fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. 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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Assets:

Table 1
Summary Statement of Net Assets
as of June 30, 2011 and 2010

	2011	2010
Assets		
Current and other assets	$ 43,059,953	$ 42,688,378
Capital assets, net of depreciation	49,183,495	50,860,841
Total assets	**$ 92,243,448**	**$ 93,549,219**
Liabilities		
Current and other liabilities	$ 30,348,156	$ 29,119,405
Long-term liabilities, including due within one year	40,434,206	42,842,514
Total liabilities	**$ 70,782,362**	**$ 71,961,919**
Net assets		
Invested in capital assets, net of related debt	$ 20,670,293	$ 19,466,942
Restricted	2,292,972	2,382,628
Unrestricted	(1,502,179)	(262,270)
Total net assets	**$ 21,461,086**	**$ 21,587,300**

The District's financial position is the product of many factors. For example, the determination of the District's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts.

The financial position of the District is measured by total net assets. Total net assets decreased by $126,214 to a level of $21,461,086. The decrease in the current year is directly related to the current year operating results. As presented in the table above, invested in capital assets, net of related debt experienced an increase over the prior year, while restricted and unrestricted net assets decreased.

Table 2 presents a summarized version of the District's Statement of Activities:

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2011 and 2010

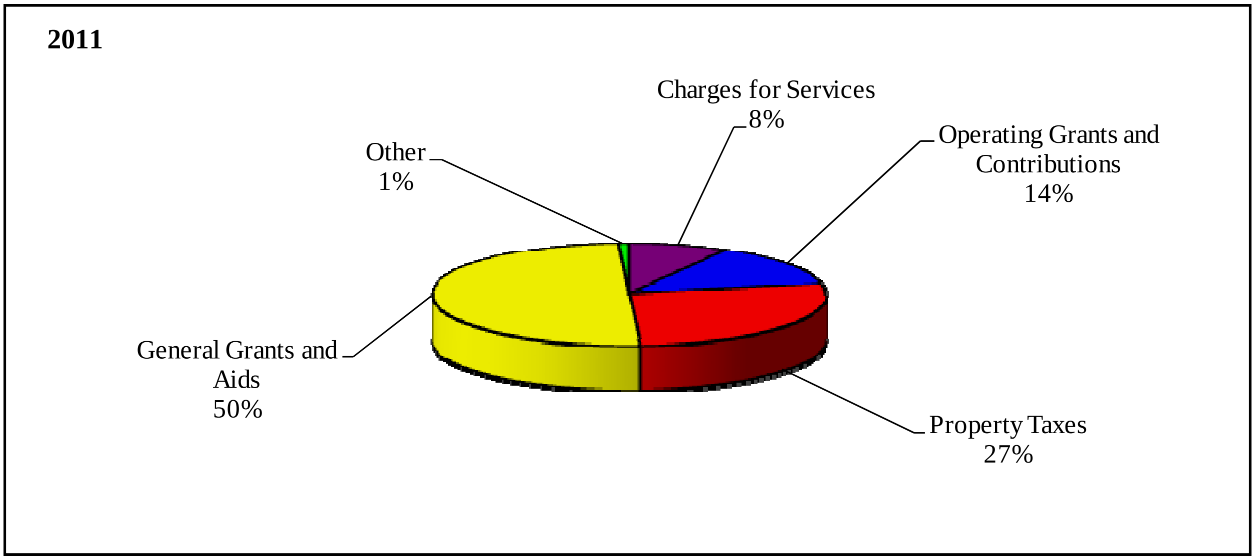
	2011	2010
Revenues		
Program revenues		
Charges for services	$ 6,370,292	$ 6,157,018
Operating grants and contributions	10,511,839	9,452,410
General revenues		
Property taxes	20,845,675	14,997,282
General grants and aids	38,446,379	43,413,186
Other	645,610	622,628
Total revenues	76,819,795	74,642,524
Expenses		
Administration	3,111,531	3,147,946
District support services	2,164,587	1,702,804
Elementary and secondary regular instruction	30,673,422	28,492,182
Vocational education instruction	920,206	956,606
Special education instruction	10,368,127	9,584,548
Instructional support services	1,598,026	2,331,929
Pupil support services	8,948,191	7,668,210
Sites and buildings	7,157,893	7,705,210
Fiscal and other fixed cost programs	281,925	264,920
Food service	3,888,660	3,932,226
Community service	4,073,291	3,965,024
Depreciation not allocated to other functions	2,194,397	2,178,622
Interest and fiscal charges	1,565,753	1,659,947
Total expenses	76,946,009	73,590,174
Change in net assets	(126,214)	1,052,350
Net assets – beginning	21,587,300	20,534,950
Net assets – ending	$ 21,461,086	$ 21,587,300

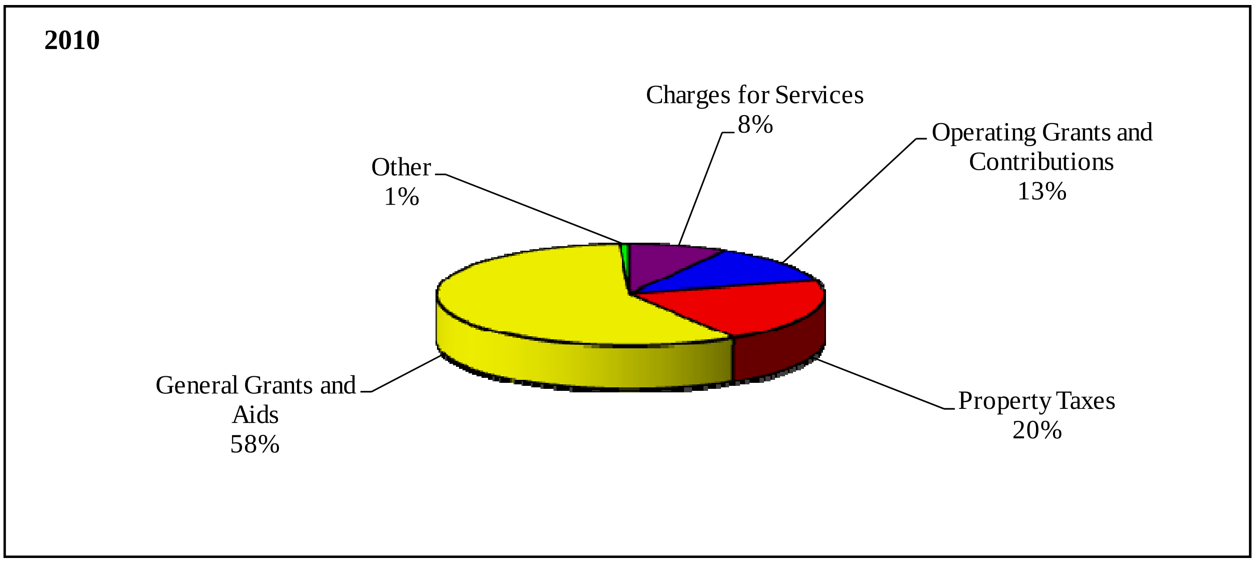
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The cost of all governmental activities this year was $76,946,009. Some of the cost was paid directly by users of the programs totaling $6,370,292. The state and federal government subsidized certain programs directly with grants and contributions totaling $10,511,839. However, the bulk of the costs were paid for by the taxpayers of the entire state totaling $38,446,379 and local school district taxpayers totaling $20,845,675.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2011 and 2010





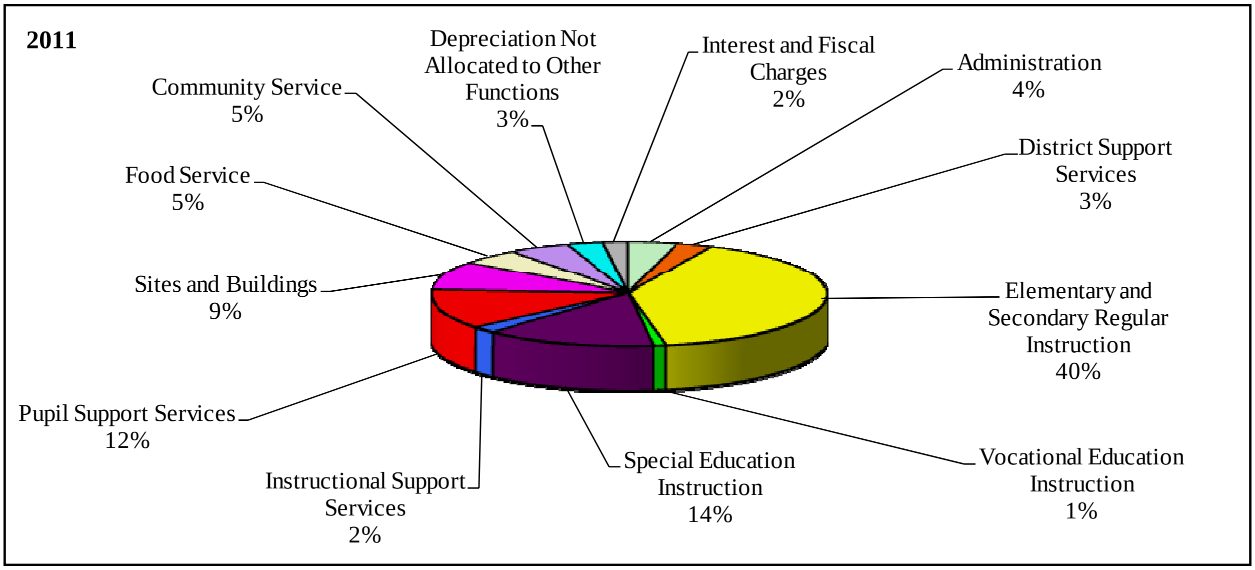
The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressures on local school districts as a result of limited funding due to the state's financial position in recent years.

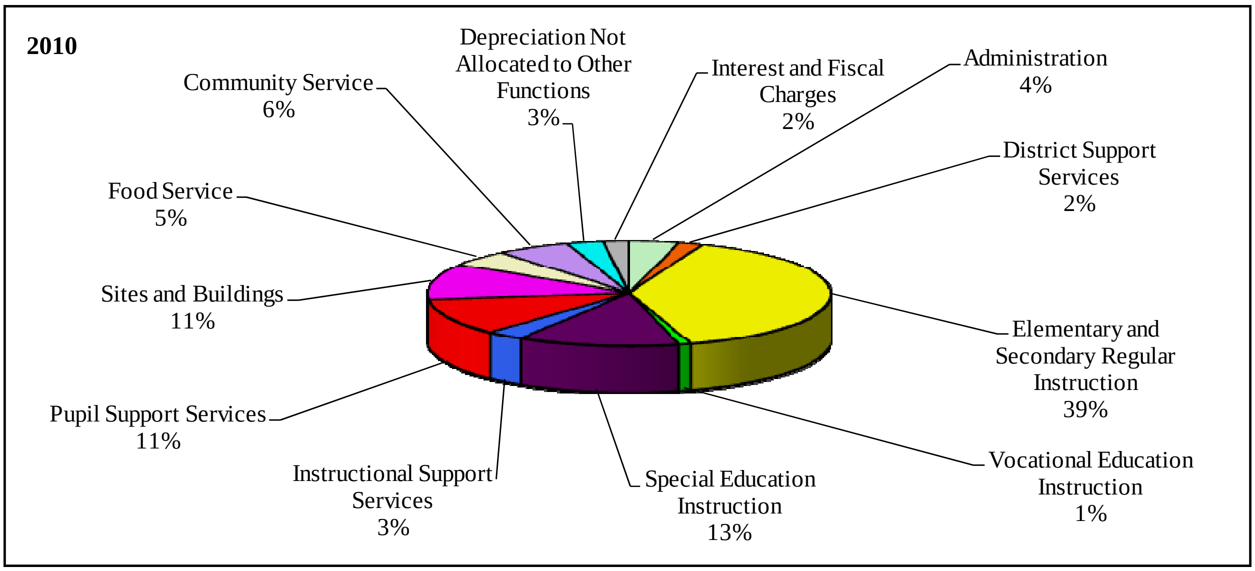
Property taxes are generally the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The proportionate share of district revenue from these two sources changed significantly from fiscal 2010 to fiscal 2011, due to a large increase in the "tax shift." The tax shift is an accounting tool used to balance the state budget, whereby districts recognize cash collections for the subsequent year's property tax levy as current year revenue, and the state reduces aid payments to districts by an equal amount.

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2011 and 2010





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

Table 3
Governmental Fund Balances
as of June 30, 2011 and 2010

	2011	2010	Increase (Decrease)
Major funds			
General	$ 5,610,449	$ 5,969,011	$ (358,562)
Debt Service	1,175,973	1,295,789	(119,816)
Nonmajor funds			
Food Service Special Revenue	887,336	981,987	(94,651)
Community Service Special Revenue	653,249	559,886	93,363
Total governmental funds	$ 8,327,007	$ 8,806,673	$ (479,666)

Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 62,573,952	$ 63,770,904	$ 1,196,952	1.9%
Expenditures	$ 63,573,952	$ 64,177,165	$ 603,213	0.9%

The District was required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. It is the District's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

	2011 Actual	Over (Under) Final Budget Amount	Over (Under) Final Budget Percent	Over (Under) Prior Year Amount	Over (Under) Prior Year Percent
Revenue	$ 64,441,441	$ 670,537	1.1%	$ 1,427,904	2.3%
Expenditures	64,800,003	$ 622,838	1.0%	$ 2,177,285	3.5%
Net change in fund balances	$ (358,562)				

Actual revenue for fiscal year 2011 was 1.1 percent more than projected, while actual expenditures were 1.0 percent over budget. The revenue variance was spread across several sources, including other local sources being $404,553 over budget and state sources being $357,068 over budget. The expenditure variance in 2011 was spread across several programs, with the largest variance occurring in elementary and secondary regular instruction.

Capital Projects – Building Construction Fund

The Debt Service Fund is used to record revenues and expenditures for District's outstanding bonded indebtedness, whether for building construction, other post-employment benefit obligations, or for refunding bonds. The June 30, 2011 fund balance is $1,175,973, a decrease from the prior fiscal year of $119,816. The fund balance decline is based on the payment schedules of bond principal and interest on the general obligation bonds issued in relation to scheduled debt levies.

Comments on Significant Activities in Other Funds

The Food Service Special Revenue Fund is used to record the activity of the District's child nutrition program. The June 30, 2011 fund balance is $887,336, a decrease from the prior fiscal year of $94,651. Revenues from meal sales were less than planned, contributing to this decrease.

The Community Service Special Revenue Fund increased total fund balance from $559,886 at the beginning of the year to $653,249 at the end of the 2011 fiscal year. This compares to a projected increase of $59,797.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

By the end of 2011, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2011 and 2010:

Table 6
Capital Assets

	2011	2010	Increase (Decrease)
Land	$ 1,885,726	$ 1,885,726	$ –
Buildings	81,356,255	81,356,255	–
Building and land improvements	9,977,063	9,230,736	746,327
Furniture and equipment	20,626,162	20,830,404	(204,242)
Less accumulated depreciation	(64,661,711)	(62,442,280)	(2,219,431)
Total	$ 49,183,495	$ 50,860,841	$ (1,677,346)
Depreciation expense	$ 2,595,303	$ 2,580,003	$ 15,300

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2011. Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 7
Outstanding Long-Term Liabilities

	2011	2010	Increase (Decrease)
General obligation bonds payable	$ 32,920,000	$ 35,735,000	$ (2,815,000)
Plus premium on bonds	1,887,543	2,134,544	(247,001)
Severance benefits payable	4,903,920	4,272,156	631,764
Compensated absences payable	722,743	700,814	21,929
Total	$ 40,434,206	$ 42,842,514	$ (2,408,308)

Bonds payable decreased due to the planned repayment schedule reflecting principal payments during fiscal year 2011.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. (See Table 8)

Table 8
Limitations on Debt

District's market value	$ 4,505,366,200
Limit rate	15.0%
Legal debt limit	$ 675,804,930

Additional details of the District's long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts remained stable in fiscal year 2011 at $5,124 per pupil. The Legislature has added $50 per pupil to the formula each of the next two fiscal years, which is the first increase in basic general education aid since fiscal year 2009. A weakened economy and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Services Department at (651) 982–8125. The address is: Independent School District No. 831, 6100 North 210th Street, Forest Lake, Minnesota 55025.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Net Assets
as of June 30, 2011
(With Partial Comparative Information as of June 30, 2010)

	Governmental Activities	
	2011	2010
Assets		
Cash and temporary investments	$ 10,750,817	$ 13,004,159
Receivables		
Current taxes	8,825,677	8,502,203
Delinquent taxes	771,649	670,163
Accounts and interest receivable	262,147	316,134
Due from fiduciary fund	706,771	830,137
Due from other governmental units	16,887,874	14,153,701
Inventory	68,319	84,094
Prepaid items	211,658	87,266
Negative net other post-employment benefit obligation	4,575,041	5,040,521
Capital assets		
Not depreciated	1,885,726	1,885,726
Depreciated, net of accumulated depreciation	47,297,769	48,975,115
Total capital assets, net of accumulated depreciation	49,183,495	50,860,841
Total assets	$ 92,243,448	$ 93,549,219
Liabilities		
Aid anticipation certificates	$ 11,805,831	$ 7,780,978
Salaries payable	1,539,665	986,412
Accounts and contracts payable	6,193,364	4,290,660
Accrued interest payable	886,140	872,574
Due to other governmental units	1,037	7,537
Property taxes levied for subsequent year	9,790,283	15,037,961
Unearned revenue	131,836	143,283
Long-term liabilities		
Due within one year	4,458,468	3,869,544
Due in more than one year	35,975,738	38,972,970
Total long-term liabilities	40,434,206	42,842,514
Total liabilities	70,782,362	71,961,919
Net assets		
Invested in capital assets, net of related debt	20,670,293	19,466,942
Restricted for		
Capital asset acquisition	103,117	150,927
Debt service	624,550	667,619
Food service	887,336	981,987
Community service	677,969	582,095
Unrestricted	(1,502,179)	(262,270)
Total net assets	21,461,086	21,587,300
Total liabilities and net assets	$ 92,243,448	$ 93,549,219

See notes to basic financial statements

Statement of Activities
Year Ended June 30, 2011
(With Partial Comparative Information for the Year Ended June 30, 2010)

Functions/Programs	Expenses	2011 Program Revenues: Charges for Services	2011 Program Revenues: Operating Grants and Contributions	2011 Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	2010 Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental activities					
Administration	$ 3,111,531	$ –	$ –	$ (3,111,531)	$ (3,147,946)
District support services	2,164,587	–	–	(2,164,587)	(1,702,804)
Elementary and secondary regular instruction	30,673,422	652,312	1,073,734	(28,947,376)	(26,874,490)
Vocational education instruction	920,206	40,098	19,237	(860,871)	(901,180)
Special education instruction	10,368,127	348,125	7,441,863	(2,578,139)	(2,743,559)
Instructional support services	1,598,026	–	–	(1,598,026)	(2,331,929)
Pupil support services	8,948,191	–	160,646	(8,787,545)	(7,516,810)
Sites and buildings	7,157,893	53,308	–	(7,104,585)	(7,649,364)
Fiscal and other fixed cost programs	281,925	–	–	(281,925)	(264,920)
Food service	3,888,660	2,366,834	1,316,664	(205,162)	(216,761)
Community service	4,073,291	2,909,615	499,695	(663,981)	(792,414)
Depreciation not allocated to other functions	2,194,397	–	–	(2,194,397)	(2,178,622)
Interest and fiscal charges	1,565,753	–	–	(1,565,753)	(1,659,947)
Total governmental activities	$ 76,946,009	$ 6,370,292	$ 10,511,839	(60,063,878)	(57,980,746)
General revenue					
Taxes					
Property taxes, levied for general purposes				15,342,269	10,511,847
Property taxes, levied for community service				1,174,696	778,746
Property taxes, levied for debt service				4,328,710	3,706,689
General grants and aids				38,446,379	43,413,186
Other general revenues				559,899	548,472
Investment earnings				85,711	74,156
Total general revenue				59,937,664	59,033,096
Change in net assets				(126,214)	1,052,350
Net assets – beginning				21,587,300	20,534,950
Net assets – ending				$ 21,461,086	$ 21,587,300

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Balance Sheet
Governmental Funds
as of June 30, 2011
(With Partial Comparative Information as of June 30, 2010)

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds 2011	Total Governmental Funds 2010
Assets					
Cash and temporary investments	$ 6,607,286	$ 2,630,928	$ 1,512,603	$ 10,750,817	$ 13,004,159
Receivables					
Current taxes	5,827,728	2,494,433	503,516	8,825,677	8,502,203
Delinquent taxes	517,586	215,703	38,360	771,649	670,163
Accounts and interest	220,047	–	42,100	262,147	316,134
Due from other governmental units	16,523,663	57,877	306,334	16,887,874	14,153,701
Due from other funds	473,125	286,020	–	759,145	830,137
Inventory	–	–	68,319	68,319	84,094
Prepaid items	206,330	–	5,328	211,658	87,266
Total assets	$ 30,375,765	$ 5,684,961	$ 2,476,560	$ 38,537,286	$ 37,647,857
Liabilities and Fund Balances					
Liabilities					
Aid anticipation certificates	$ 11,805,831	$ –	$ –	$ 11,805,831	$ 7,780,978
Salaries payable	1,403,961	–	135,704	1,539,665	986,412
Accounts and contracts payable	5,979,192	2,385	211,787	6,193,364	4,290,660
Accrued interest payable	196,009	–	–	196,009	124,922
Due to other governmental units	987	–	50	1,037	7,537
Due to other funds	–	52,374	–	52,374	–
Property taxes levied for subsequent year	5,022,274	4,315,521	452,488	9,790,283	15,037,961
Unearned revenue	20,610	–	111,226	131,836	143,283
Deferred revenue	336,452	138,708	24,720	499,880	469,431
Total liabilities	24,765,316	4,508,988	935,975	30,210,279	28,841,184
Fund balances					
Nonspendable	206,330	–	73,647	279,977	171,360
Restricted	103,117	1,175,973	1,466,938	2,746,028	2,898,300
Assigned	823,777	–	–	823,777	2,258,590
Unassigned	4,477,225	–	–	4,477,225	3,478,423
Total fund balances	5,610,449	1,175,973	1,540,585	8,327,007	8,806,673
Total liabilities and fund balances	$ 30,375,765	$ 5,684,961	$ 2,476,560	$ 38,537,286	$ 37,647,857

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Balance Sheet to the
Statement of Net Assets
Governmental Funds
as of June 30, 2011
(With Partial Comparative Information as of June 30, 2010)

	2011	2010
Total fund balances – governmental funds	$ 8,327,007	$ 8,806,673
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets are included in net assets, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	113,845,206	113,303,121
Accumulated depreciation	(64,661,711)	(62,442,280)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(32,920,000)	(35,735,000)
Premium on bonds	(1,887,543)	(2,134,544)
Severance benefits payable	(4,903,920)	(4,272,156)
Compensated absences payable	(722,743)	(700,814)
Net other post-employment benefit obligations reported in the Statement of Net Assets do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.	4,575,041	5,040,521
Accrued interest payable is included in net assets, but is excluded from fund balances until due and payable.	(690,131)	(747,652)
Certain revenues (including delinquent property taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	499,880	469,431
Total net assets – governmental activities	$ 21,461,086	$ 21,587,300

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011
(With Partial Comparative Information for the Year Ended June 30, 2010)

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds 2011	Total Governmental Funds 2010
Revenue					
Local sources					
Property taxes	$ 15,333,557	$ 4,309,484	$ 1,172,185	$ 20,815,226	$ 14,889,549
Investment earnings	80,604	2,389	2,718	85,711	74,156
Other	1,653,742	–	5,276,449	6,930,191	6,705,490
State sources	44,072,843	192,925	251,278	44,517,046	44,357,161
Federal sources	3,300,695	–	1,140,477	4,441,172	8,508,435
Total revenue	64,441,441	4,504,798	7,843,107	76,789,346	74,534,791
Expenditures					
Current					
Administration	3,051,637	–	–	3,051,637	3,042,912
District support services	2,147,647	–	–	2,147,647	1,691,524
Elementary and secondary regular instruction	29,779,750	–	–	29,779,750	29,049,049
Vocational education instruction	917,836	–	–	917,836	954,236
Special education instruction	10,293,896	–	–	10,293,896	9,503,795
Instructional support services	1,581,361	–	–	1,581,361	2,300,442
Pupil support services	8,661,991	–	–	8,661,991	7,410,014
Sites and buildings	8,023,299	–	–	8,023,299	8,335,957
Fiscal and other fixed cost programs	281,925	–	–	281,925	264,920
Food service	–	–	3,702,342	3,702,342	3,759,662
Community service	–	–	4,058,464	4,058,464	3,917,039
Capital outlay	–	–	83,589	83,589	173,311
Debt service					
Principal	–	2,815,000	–	2,815,000	2,448,044
Interest and fiscal charges	60,661	1,809,614	–	1,870,275	1,929,646
Total expenditures	64,800,003	4,624,614	7,844,395	77,269,012	74,780,551
Net change in fund balances	(358,562)	(119,816)	(1,288)	(479,666)	(245,760)
Fund balances					
Beginning of year	5,969,011	1,295,789	1,541,873	8,806,673	9,052,433
End of year	$ 5,610,449	$ 1,175,973	$ 1,540,585	$ 8,327,007	$ 8,806,673

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2011
(With Partial Comparative Information for the Year Ended June 30, 2010)

	2011	2010
Total net change in fund balances – governmental funds	$ (479,666)	$ (245,760)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net assets and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	917,957	777,482
Depreciation expense	(2,595,303)	(2,580,003)
Repayment of long-term debt does not affect the change in net assets. However, it reduces fund balances.		
General obligation bonds	2,815,000	2,410,000
Energy lease payable	–	38,044
Net other post-employment benefit obligations reported in the Statement of Activities do not require the use of current financial resources and are not reported until actually due.	(465,480)	(403,161)
Interest on long-term debt is included in the change in net assets as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	57,521	22,698
Debt issuance premiums, discounts, and issuance costs are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	247,001	247,001
Certain expenses are included in the change in net assets, but do not require the use of current funds, and are not included in the change in fund balances.		
Compensated absences payable	(21,929)	(103,289)
Severance benefits payable	(631,764)	781,605
Certain revenues (including delinquent property taxes) are included in the change in net assets, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	30,449	107,733
Change in net assets – governmental activities	$ (126,214)	$ 1,052,350

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2011

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 10,405,000	$ 15,130,725	$ 15,333,557	$ 202,832
Investment earnings	200,000	200,000	80,604	(119,396)
Other	1,187,100	1,249,189	1,653,742	404,553
State sources	47,316,500	43,715,775	44,072,843	357,068
Federal sources	3,465,352	3,475,215	3,300,695	(174,520)
Total revenue	62,573,952	63,770,904	64,441,441	670,537
Expenditures				
Current				
Administration	3,208,584	3,187,588	3,051,637	(135,951)
District support services	2,670,881	2,176,857	2,147,647	(29,210)
Elementary and secondary regular instruction	28,581,397	29,032,696	29,779,750	747,054
Vocational education instruction	905,720	895,070	917,836	22,766
Special education instruction	9,784,275	9,837,655	10,293,896	456,241
Instructional support services	1,682,934	1,667,769	1,581,361	(86,408)
Pupil support services	8,210,771	8,689,867	8,661,991	(27,876)
Sites and buildings	7,659,390	8,344,663	8,023,299	(321,364)
Fiscal and other fixed cost programs	845,000	320,000	281,925	(38,075)
Debt service				
Interest and fiscal charges	25,000	25,000	60,661	35,661
Total expenditures	63,573,952	64,177,165	64,800,003	622,838
Net change in fund balances	$ (1,000,000)	$ (406,261)	(358,562)	$ 47,699
Fund balances				
Beginning of year			5,969,011	
End of year			$ 5,610,449	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Fiduciary Net Assets
as of June 30, 2011

		Employee Benefits Trust Funds
Assets		
Cash and short-term investments	$	2,491,654
Accounts and interest receivable		42,310
Prepaid items		50
Investments, at fair value		
U.S. government agency securities		547,958
State and local bonds		2,606,089
Negotiable certificates of deposit		1,129,188
MNTrust Investment Shares Portfolio		607,727
Total assets		7,424,976
Liabilities		
Accounts payable		1,516,113
Due to governmental funds		706,771
Total liabilities		2,222,884
Net assets		
Held in trust for employee benefits and health savings account	$	5,202,092

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2011

		Employee Benefits Trust Funds
Additions		
Contributions		
Plan members	$	16,622
Investment earnings		180,120
Total additions		196,742
Deductions		
Benefits paid to plan members		427,641
Change in net assets		(230,899)
Net assets		
Beginning of year		5,432,991
End of year	$	5,202,092

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Independent School District No. 831, Forest Lake, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District serves pre-kindergarten through 12th grade students attending the District either as a resident of the District or through an open enrollment option election. It is governed by a School Board elected by voters of the District to four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2011, the District paid TIES $463,809 for services provided.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in the District's basic financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not allocated to other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type, for which the District has two benefit trust funds. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2009 taxable OPEB bond issue.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used primarily to record financial activities of the District's child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

Fiduciary Funds

Health Savings Plan Trust Fund – The Health Savings Plan Trust Fund is used to administer resources received and held by the District as the trustee for employees participating in the District's health savings account.

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

E. Budgeting

The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. The School Board adopted an annual budget for the following fiscal year for all governmental funds. Budgeted expenditure appropriations lapse at year-end.

Actual General Fund and Debt Service Fund expenditures exceeded final budgeted appropriations by $622,838 and $64,614, respectively, for the year ended June 30, 2011.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the balance sheet date.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

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

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $5,610,863 of the property tax levy collectible in 2011 as revenue to the District in fiscal year 2010–2011. The remaining portion of the taxes collectible in 2011 is recorded as unearned revenue (property taxes levied for subsequent year).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by the state of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

The District does not possess material amounts of infrastructure capital assets. Such items are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

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

M. Vacation Pay

Under the terms of union contracts, certain employees accrue vacation (accrued as compensated absences) at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when earned in the government-wide financial statements. Vacation pay is accrued in governmental fund financial statements only when used or matured due to employee termination or similar circumstances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Sick Pay

Substantially all district employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of certain termination payments for some employees.

O. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions of certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The amount of the severance or retirement benefit is calculated by converting a portion of unused accumulated sick leave. No employee can receive severance or retirement benefits that exceed one year's salary. Members of certain employee groups may also elect to receive District matching contributions paid into a tax-deferred matching contribution plan. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual's employment.

The amount of severance that is based on convertible sick leave is recorded as a liability in the government-wide statements as it is earned and it becomes probable that it will vest at some point in the future. Severance or retirement pay is accrued in the governmental fund financial statements only when it matures due to employee termination or separation of service.

P. 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 revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Q. Risk Management and Self-Insurance

1. **General Insurance** – 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 District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2011.

2. **Self-Insurance** – The District uses its General Fund to account for and finance its self-insured risk of loss for an employee dental plan. The dental plan is funded by the District, employee contributions, and interest income. The claims liability of $64,177 is included in the liabilities of the General Fund at June 30, 2011 and is based on the requirement that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred on the date of the financial statements and the loss can be reasonably estimated.

   Changes in the fund's claim liability were:

	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
2011 (first year)	$ –	$ 561,356	$ 497,179	$ 64,177

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Assets

In the government-wide financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- **Invested in Capital Assets, Net of Related Debt** – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Assets** – Consists of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Assets** – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

S. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Change in Accounting Principle

For the year ended June 30, 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The District is implementing this standard retroactively, meaning prior year fund balance classifications have been restated. More information on these fund balance classifications is included elsewhere in these notes.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	$	3,831,971
Investments		14,301,462
Total deposits and investments	$	18,133,433

Cash and investments are included on the basic financial statements as follows:

Statement of Net Assets		
Cash and temporary investments	$	10,750,817
Statement of Fiduciary Net Assets		
Cash and short-term investments		2,491,654
Investments		4,890,962
Total deposits and investments	$	18,133,433

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was $3,831,971 while the balance on the bank records was $4,501,691. At June 30, 2011, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

	Credit Risk		Interest Risk – Maturity Duration in Years			
Deposits/Investments	Rating	Agency	Less Than 1	1 to 5	5 to 10	Total
U.S. government agency securities	AAA	S&P	$ 547,958	$ –	$ –	$ 547,958
State and local bonds	AAA	S&P	$ –	$ 2,033,998	$ –	2,033,998
State and local bonds	AA	S&P	$ –	$ 271,588	$ –	271,588
State and local bonds	Aa2	Moody's	$ –	$ –	$ 300,504	300,504
Negotiable certificates of deposit	N/A	N/A	$ 3,471,905	$ 2,833,283	$ –	6,305,188
Investment pools/mutual funds						
MN School District Liquid Asset Fund	AAAm	S&P				102,681
MNTrust Investment Shares Portfolio	AAA	S&P				1,715,658
Wells Fargo Advantage Government	AAAm	S&P				3,023,887
Total investments						$ 14,301,462

N/A – Not Applicable

The MN School District Liquid Asset Fund and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The District's investment in the MSDLAF and MNTrust Investment Shares Portfolio are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk. At June 30, 2011, the District's investment portfolio is not subject to concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated				
Land	$ 1,885,726	$ –	$ –	$ 1,885,726
Capital assets, depreciated				
Buildings	81,356,255	–	–	81,356,255
Building and land improvements	9,230,736	746,327	–	9,977,063
Furniture and equipment	20,830,404	171,630	(375,872)	20,626,162
Total capital assets, depreciated	111,417,395	917,957	(375,872)	111,959,480
Less accumulated depreciation for				
Buildings	(40,297,981)	(1,850,567)	–	(42,148,548)
Building and land improvements	(3,557,316)	(285,088)	–	(3,842,404)
Furniture and equipment	(18,586,983)	(459,648)	375,872	(18,670,759)
Total accumulated depreciation	(62,442,280)	(2,595,303)	375,872	(64,661,711)
Net capital assets, depreciated	48,975,115	(1,677,346)	–	47,297,769
Total capital assets, net	$ 50,860,841	$ (1,677,346)	$ –	$ 49,183,495

Depreciation expense was charged to the following governmental functions:

Administration	$ 352
District support services	1,765
Elementary and secondary regular instruction	11,666
Vocational education instruction	2,370
Special education instruction	1,895
Instructional support services	4,516
Pupil support services	232,996
Community service	8,533
Food service	136,813
Depreciation not allocated to other functions	2,194,397
Total depreciation expense	$ 2,595,303

NOTE 4 – AID ANTICIPATION CERTIFICATES

Short-term borrowing for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
08/27/2009	09/10/2010	2.00%	$ 7,780,978	$ –	$ 7,780,978	$ –
09/01/2010	09/01/2011	2.00%	–	11,805,831	–	11,805,831
			$ 7,780,978	$ 11,805,831	$ 7,780,978	$ 11,805,831

Interest and fiscal charges of $60,661 were charged to the General Fund during the year, net of reoffering premiums.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Refunding bonds	01/27/2005	5.00%	$ 34,140,000	02/01/2019	$ 26,650,000
Taxable OPEB bonds	03/01/2009	3.50–6.00%	$ 6,450,000	02/01/2030	6,270,000
Total general obligation bonds payable					$ 32,920,000

These bonds were issued to finance acquisition and/or construction of capital facilities, to refinance (refund) previous bond issues, or to finance OPEB. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including severance, compensated absences, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest
2012	$ 2,990,000	$ 1,656,316
2013	3,190,000	1,509,441
2014	3,285,000	1,352,941
2015	3,415,000	1,190,641
2016	3,615,000	1,022,091
2017–2021	12,575,000	2,438,007
2022–2026	1,855,000	900,546
2027–2030	1,995,000	305,014
	$ 32,920,000	$ 10,374,997

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	$ 35,735,000	$ –	$ 2,815,000	$ 32,920,000	$ 2,990,000
Plus premium on bonds	2,134,544	–	247,001	1,887,543	–
Total bonds payable	37,869,544	–	3,062,001	34,807,543	2,990,000
Severance benefits payable	4,272,156	1,804,843	1,173,079	4,903,920	745,725
Compensated absences payable	700,814	161,288	139,359	722,743	722,743
	$ 42,842,514	$ 1,966,131	$ 4,374,439	$ 40,434,206	$ 4,458,468

NOTE 6 – FUND BALANCES

During fiscal 2011, the District retroactively implemented the requirements of a new accounting pronouncement, GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

NOTE 6 – FUND BALANCES (CONTINUED)

A. Classifications

At June 30, 2011, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable				
Prepaid items	$ 206,330	$ –	$ 5,328	$ 211,658
Inventory	–	–	68,319	68,319
Total nonspendable	206,330	–	73,647	279,977
Restricted				
Operating capital	103,117	–	–	103,117
Early childhood family education	–	–	122,121	122,121
Community education programs	–	–	495,173	495,173
Debt service	–	1,175,973	–	1,175,973
Food service	–	–	818,817	818,817
Community service	–	–	30,827	30,827
Total restricted	103,117	1,175,973	1,466,938	2,746,028
Assigned				
Severance	823,777	–	–	823,777
Unassigned				
Health and safety restricted account deficit	(101,416)	–	–	(101,416)
Unassigned	4,578,641	–	–	4,578,641
Total unassigned	4,477,225	–	–	4,477,225
Total	$ 5,610,449	$ 1,175,973	$ 1,540,585	$ 8,327,007

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (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 below:

Tier I

	Step Rate Formula	Percentage per Year
Basic Plan		
	First 10 years	2.2 percent
	All years after	2.7 percent
Coordinated Plan		
	First 10 years if service years are prior to July 1, 2006	1.2 percent
	First 10 years if service years are July 1, 2006 or after	1.4 percent
	All other years of service if service years are prior to July 1, 2006	1.7 percent
	All other years of service if service years are July 1, 2006 or after	1.9 percent

With these provisions:

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

Tier II

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4–5.5 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 receiving them are bound by the provisions in effect at the time they last terminated their public service.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (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 at tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296–6449 or (800) 657–3853.

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5 percent for Coordinated Plan members and 9.5 percent for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2010, 2009, and 2008 were approximately $3.79 billion, $3.76 billion, and $3.65 billion, respectively.

The District's contributions for the years ended June 30, 2011, 2010, and 2009 were $1,550,405, $1,611,754, and $1,729,854, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

Public Employees' Retirement Association (PERA)

A. Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (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 all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits, but are not 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 GERF. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296–7460 or (800) 652–9026.

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2010. The contribution rate for Coordinated Plan members increased to 6.25 percent effective January 1, 2011. The District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.00 percent for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 7.25 percent effective January 1, 2011.

The District's contributions to GERF for the years ended June 30, 2011, 2010, and 2009 were $887,621, $861,771, and $825,078, respectively, equal to the contractually required contributions for each year as set by state statutes.

NOTE 8 – SPECIAL TERMINATION BENEFITS

During the 2011 fiscal year, the District offered a one-time early retirement incentive program for teachers meeting certain age and years of service eligibility requirements. During the one-year program, teachers who decided to retire by February 1, 2011, were eligible for a $20,000 early retirement payment, with the contingency that the District have 25 teachers participating. During the year, 27 teachers participated in this program, resulting in a cost of $540,000 to the District. As of June 30, 2011, the full amount has been accrued in the government-wide and fund financial statements.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the District's OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these District-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established a Post-Employment Benefits Trust Fund to fund these obligations.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 357,513
Interest on net OPEB obligation	(151,235)
Adjustment to annual required contribution	259,202
Annual OPEB cost (expense)	465,480
Contributions made	–
Increase in net OPEB obligation	465,480
Negative net OPEB obligation – beginning of year	(5,040,521)
Negative net OPEB obligation – end of year	$ (4,575,041)

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Negative Net OPEB Obligation
June 30, 2009	$ 648,127	$ 6,091,809	939.9%	$ (5,443,682)
June 30, 2010	$ 403,161	$ –	–	$ (5,040,521)
June 30, 2011	$ 465,480	$ –	–	$ (4,575,041)

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 83.9 percent funded. The actuarial accrued liability for benefits was $6,302,912 and the actuarial value of assets was $5,286,971, resulting in an unfunded actuarial accrued liability (UAAL) of $1,015,941. The covered payroll (annual payroll of active employees covered by the plan) was $34,140,189, and the ratio of the UAAL to the covered payroll was 3.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; a zero percent rate of projected salary increases; an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after seven years. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2010 for the various amortization layers ranged from 28 to 30 years.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

F. Post-Employment Benefits Trust Fund

The District administers a defined benefit OPEB Plan. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan.

The Post-Employment Benefits Trust Fund is reported using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

G. Membership

Membership in the plan consisted of the following as of July 1, 2010:

Retirees and beneficiaries receiving benefits	123
Active plan members	746
Total members	869

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a cafeteria plan (the Plan) established under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the Plan, whether or not such contributions have been made.

The Plan is administered by the District for child care, medical expense reimbursements, and health insurance premiums. The District withholds amounts from employee payroll checks equal to the amount of the health insurance premiums owing and makes the premium payments when due. These payments are recorded in the General Fund. The medical reimbursement and dependant care activity in the financial statements is accounted for in the General Fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare and dependant care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – HEALTHCARE REIMBURSEMENT PLAN

The District also maintains a healthcare reimbursement plan (the Healthcare Plan) under § 105 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Participants may use the funds contributed by the District to be reimbursed for uninsured health expenses paid, additional costs associated with health insurance coverage, or insurance premiums paid under a spouse or dependant plan.

All assets of the Healthcare Plan are held by the District. The Healthcare Plan is administered by an independent contract administrator and is included in the financial statements in the various district funds.

All property of the Healthcare Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Healthcare Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 12 – INTERFUND BALANCES AND TRANSACTIONS

The District had the following interfund receivables and payables at June 30, 2011:

	Due From Other Funds	Due to Other Funds
General Fund	$ 473,125	$ –
Debt Service Fund	286,020	52,374
Employee benefit trust funds	–	706,771
	$ 759,145	$ 759,145

This balance represents interfund amounts due to the General Fund and Debt Service Fund relating to post-employment benefit costs to be reimbursed, to reimburse the portion of bond proceeds to be used for initial debt service costs, and to eliminate a temporary cash deficit in the Debt Service Fund as of June 30, 2011.

NOTE 13 – OPERATING LEASES

The District has 10 operating bus leases for student transportation. The leases have monthly payments ranging from $3,330 to $10,095 and expire at various times through November 2015. Operating lease expenditures for the year ended June 30, 2011 were approximately $407,682.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from $10,667 to $12,367 and will expire in August 2016. Operating lease expenditures for the year ended June 30, 2011 were approximately $128,004.

NOTE 13 – OPERATING LEASES (CONTINUED)

Future commitments on these leases are as follows:

Year Ending June 30,	Bus Leases	Space Lease
2012	$ 548,827	$ 131,844
2013	478,530	135,804
2014	215,967	139,884
2015	197,259	144,084
2016	17,833	148,404
2017	–	24,734
	$ 1,458,416	$ 724,754

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Contingencies

The District has the usual and customary legal claims pending at year-end, mostly of minor nature and/or covered by insurance. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Contract Commitments

The District is committed to contracts awarded for construction and maintenance projects. The District's commitment for uncompleted work on these contracts at June 30, 2011 was approximately $363,489.

NOTE 15 – SUBSEQUENT EVENTS

In August 2011, the District issued $14,735,662 of Aid Anticipation Certificates, Series 2011B. The certificates bear an interest rate of 2.0 percent and have a final maturity date of September 9, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Other Post-Employment Benefits Plan
June 30, 2011

The following schedules present trend information about the funding progress and amounts contributed to the Other Post-Employment Benefits (OPEB) Plan administered by Independent School District No. 831:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	$ 6,091,809	$ –	$ 6,091,809	– %	$ 34,384,669	17.7 %
July 1, 2010	$ 6,302,912	$ 5,286,971	$ 1,015,941	83.9 %	$ 34,140,189	3.0 %

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	(Negative) Net OPEB Obligation
2009	$ 648,127	939.9 %	$ (5,443,682)
2010	$ 403,161	– %	$ (5,040,521)
2011	$ 465,480	– %	$ (4,575,041)

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2011

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 867,766	$ 644,837	$ 1,512,603
Receivables			
Current taxes	–	503,516	503,516
Delinquent taxes	–	38,360	38,360
Accounts and interest	–	42,100	42,100
Due from other governmental units	55,889	250,445	306,334
Inventory	68,319	–	68,319
Prepaid items	200	5,128	5,328
Total assets	$ 992,174	$ 1,484,386	$ 2,476,560
Liabilities and Fund Balances			
Liabilities			
Salaries payable	$ 16,065	$ 119,639	$ 135,704
Accounts and contracts payable	7,662	204,125	211,787
Due to other governmental units	–	50	50
Property taxes levied for subsequent year	–	452,488	452,488
Unearned revenue	81,111	30,115	111,226
Deferred revenue	–	24,720	24,720
Total liabilities	104,838	831,137	935,975
Fund balances			
Nonspendable for inventory	68,319	–	68,319
Nonspendable for prepaid items	200	5,128	5,328
Restricted	818,817	648,121	1,466,938
Total fund balances	887,336	653,249	1,540,585
Total liabilities and fund balances	$ 992,174	$ 1,484,386	$ 2,476,560

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2011

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,172,185	$ 1,172,185
Investment earnings	1,488	1,230	2,718
Other	2,366,834	2,909,615	5,276,449
State sources	176,187	75,091	251,278
Federal sources	1,140,477	–	1,140,477
Total revenue	3,684,986	4,158,121	7,843,107
Expenditures			
Current			
Food service	3,702,342	–	3,702,342
Community service	–	4,058,464	4,058,464
Capital outlay	77,295	6,294	83,589
Total expenditures	3,779,637	4,064,758	7,844,395
Net change in fund balances	(94,651)	93,363	(1,288)
Fund balances			
Beginning of year	981,987	559,886	1,541,873
End of year	$ 887,336	$ 653,249	$ 1,540,585

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Comparative Balance Sheet
as of June 30, 2011 and 2010

	2011	2010
Assets		
Cash and temporary investments	$ 6,607,286	$ 8,198,777
Receivables		
Current taxes	5,827,728	5,412,439
Delinquent taxes	517,586	468,999
Accounts and interest	220,047	280,356
Due from other governmental units	16,523,663	13,816,405
Due from other funds	473,125	544,117
Prepaid items	206,330	81,071
Total assets	$ 30,375,765	$ 28,802,164
Liabilities and Fund Balances		
Liabilities		
Aid anticipation certificates	$ 11,805,831	$ 7,780,978
Salaries payable	1,403,961	852,755
Accounts and contracts payable	5,979,192	4,027,090
Accrued interest payable	196,009	124,922
Due to other governmental units	987	–
Property taxes levied for subsequent year	5,022,274	9,716,078
Unearned revenue	20,610	3,590
Deferred revenue – delinquent taxes	336,452	327,740
Total liabilities	24,765,316	22,833,153
Fund balances (deficits)		
Nonspendable for prepaid items	206,330	81,071
Restricted for deferred maintenance	–	89,486
Restricted for health and safety	–	12,969
Restricted for operating capital	103,117	48,472
Assigned for severance	823,777	1,258,590
Assigned for subsequent year budget	–	1,000,000
Unassigned – health and safety restricted account deficit	(101,416)	–
Unassigned	4,578,641	3,478,423
Total fund balances	5,610,449	5,969,011
Total liabilities and fund balances	$ 30,375,765	$ 28,802,164

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 15,130,725	$ 15,333,557	$ 202,832	$ 10,431,320
Investment earnings	200,000	80,604	(119,396)	54,057
Other	1,249,189	1,653,742	404,553	1,614,751
State sources	43,715,775	44,072,843	357,068	43,539,037
Federal sources	3,475,215	3,300,695	(174,520)	7,374,372
Total revenue	63,770,904	64,441,441	670,537	63,013,537
Expenditures				
Current				
Administration				
Salaries	2,250,817	2,191,001	(59,816)	2,156,696
Employee benefits	827,810	801,861	(25,949)	794,235
Purchased services	51,179	33,882	(17,297)	45,795
Supplies and materials	12,850	4,492	(8,358)	7,555
Other expenditures	44,932	20,401	(24,531)	38,631
Total administration	3,187,588	3,051,637	(135,951)	3,042,912
District support services				
Salaries	946,103	1,022,489	76,386	933,849
Employee benefits	647,583	438,689	(208,894)	421,566
Purchased services	418,990	550,459	131,469	232,206
Supplies and materials	151,381	129,582	(21,799)	98,681
Other expenditures	12,800	6,428	(6,372)	5,222
Total district support services	2,176,857	2,147,647	(29,210)	1,691,524
Elementary and secondary regular instruction				
Salaries	20,933,961	21,332,709	398,748	21,044,743
Employee benefits	6,411,541	6,957,916	546,375	6,551,448
Purchased services	977,241	728,919	(248,322)	750,446
Supplies and materials	701,133	742,297	41,164	676,366
Capital expenditures	7,620	8,783	1,163	10,530
Other expenditures	1,200	9,126	7,926	15,516
Total elementary and secondary regular instruction	29,032,696	29,779,750	747,054	29,049,049

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	622,781	616,835	(5,946)	619,322
Employee benefits	216,732	209,052	(7,680)	212,449
Purchased services	11,882	15,724	3,842	51,611
Supplies and materials	41,175	75,658	34,483	68,062
Capital expenditures	2,500	567	(1,933)	2,792
Total vocational education instruction	895,070	917,836	22,766	954,236
Special education instruction				
Salaries	6,948,611	7,097,215	148,604	6,678,197
Employee benefits	2,167,420	2,144,419	(23,001)	2,031,961
Purchased services	675,477	975,245	299,768	680,836
Supplies and materials	35,147	65,585	30,438	92,347
Capital expenditures	8,000	8,724	724	16,104
Other expenditures	3,000	2,708	(292)	4,350
Total special education instruction	9,837,655	10,293,896	456,241	9,503,795
Instructional support services				
Salaries	1,127,048	1,096,374	(30,674)	1,594,265
Employee benefits	365,353	355,491	(9,862)	469,423
Purchased services	27,952	26,646	(1,306)	77,699
Supplies and materials	136,729	98,492	(38,237)	147,925
Capital expenditures	300	–	(300)	–
Other expenditures	10,387	4,358	(6,029)	11,130
Total instructional support services	1,667,769	1,581,361	(86,408)	2,300,442
Pupil support services				
Salaries	4,320,264	4,346,110	25,846	4,160,942
Employee benefits	1,626,132	1,521,935	(104,197)	1,507,155
Purchased services	1,679,084	1,679,526	442	806,819
Supplies and materials	1,053,750	1,103,580	49,830	917,300
Capital expenditures	9,622	593	(9,029)	17,756
Other expenditures	1,015	10,247	9,232	42
Total pupil support services	8,689,867	8,661,991	(27,876)	7,410,014

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,949,945	1,775,359	(174,586)	1,764,966
Employee benefits	864,730	893,974	29,244	897,763
Purchased services	3,154,860	3,025,569	(129,291)	3,198,221
Supplies and materials	830,820	677,158	(153,662)	951,503
Capital expenditures	1,472,808	1,619,087	146,279	1,457,274
Other expenditures	71,500	32,152	(39,348)	66,230
Total sites and buildings	8,344,663	8,023,299	(321,364)	8,335,957
Fiscal and other fixed cost programs				
Purchased services	320,000	281,925	(38,075)	264,920
Debt service				
Principal	–	–	–	38,044
Interest and fiscal charges	25,000	60,661	35,661	31,825
Total debt service	25,000	60,661	35,661	69,869
Total expenditures	64,177,165	64,800,003	622,838	62,622,718
Net change in fund balances	$ (406,261)	(358,562)	$ 47,699	390,819
Fund balances				
Beginning of year		5,969,011		5,578,192
End of year		$ 5,610,449		$ 5,969,011

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2011 and 2010

	2011	2010
Assets		
Cash and temporary investments	$ 867,766	$ 984,948
Receivables		
Accounts and interest	–	3,348
Due from other governmental units	55,889	59,293
Inventory	68,319	84,094
Prepaid items	200	5,710
Total assets	$ 992,174	$ 1,137,393
Liabilities and Fund Balances		
Liabilities		
Salaries payable	$ 16,065	$ 14,147
Accounts and contracts payable	7,662	64,351
Due to other governmental units	–	256
Unearned revenue	81,111	76,652
Total liabilities	104,838	155,406
Fund balances		
Nonspendable for inventory	68,319	84,094
Nonspendable for prepaid items	200	5,710
Restricted for food service	818,817	892,183
Total fund balances	887,336	981,987
Total liabilities and fund balances	$ 992,174	$ 1,137,393

INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 20,000	$ 1,488	$ (18,512)	$ 5,791
Other – primarily meal sales	2,532,570	2,366,834	(165,736)	2,406,772
State sources	167,608	176,187	8,579	174,630
Federal sources	1,068,626	1,140,477	71,851	1,134,063
Total revenue	3,788,804	3,684,986	(103,818)	3,721,256
Expenditures				
Current				
Salaries	1,248,500	1,481,463	232,963	1,487,577
Employee benefits	369,000	404,688	35,688	389,124
Purchased services	156,400	143,563	(12,837)	129,499
Supplies and materials	1,928,000	1,671,115	(256,885)	1,751,794
Other expenditures	4,000	1,513	(2,487)	1,668
Capital outlay	80,000	77,295	(2,705)	133,859
Total expenditures	3,785,900	3,779,637	(6,263)	3,893,521
Net change in fund balances	$ 2,904	(94,651)	$ (97,555)	(172,265)
Fund balances				
Beginning of year		981,987		1,154,252
End of year		$ 887,336		$ 981,987

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2011 and 2010

	2011	2010
Assets		
Cash and temporary investments	$ 644,837	$ 991,484
Receivables		
Current taxes	503,516	456,491
Delinquent taxes	38,360	32,027
Accounts and interest	42,100	32,430
Due from other governmental units	250,445	236,193
Prepaid items	5,128	485
Total assets	$ 1,484,386	$ 1,749,110
Liabilities and Fund Balances		
Liabilities		
Salaries payable	$ 119,639	$ 119,510
Accounts and contracts payable	204,125	190,964
Due to other governmental units	50	7,281
Property taxes levied for subsequent year	452,488	786,219
Unearned revenue	30,115	63,041
Deferred revenue – delinquent taxes	24,720	22,209
Total liabilities	831,137	1,189,224
Fund balances		
Nonspendable for prepaid items	5,128	485
Restricted for community education programs	495,173	417,437
Restricted for early childhood family education programs	122,121	83,230
Restricted for school readiness	–	32,901
Restricted for community service	30,827	25,833
Total fund balances	653,249	559,886
Total liabilities and fund balances	$ 1,484,386	$ 1,749,110

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,196,270	$ 1,172,185	$ (24,085)	$ 771,675
Investment earnings	22,000	1,230	(20,770)	4,279
Other – primarily tuition and fees	2,928,258	2,909,615	(18,643)	2,683,967
State sources	80,995	75,091	(5,904)	488,643
Total revenue	4,227,523	4,158,121	(69,402)	3,948,564
Expenditures				
Current				
Salaries	2,766,115	2,685,095	(81,020)	2,593,681
Employee benefits	729,549	821,273	91,724	714,790
Purchased services	401,484	340,783	(60,701)	362,811
Supplies and materials	255,428	209,132	(46,296)	243,249
Other expenditures	2,650	2,181	(469)	2,508
Capital outlay	12,500	6,294	(6,206)	39,452
Total expenditures	4,167,726	4,064,758	(102,968)	3,956,491
Net change in fund balances	$ 59,797	93,363	$ 33,566	(7,927)
Fund balances				
Beginning of year		559,886		567,813
End of year		$ 653,249		$ 559,886

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Comparative Balance Sheet by Account
as of June 30, 2011 and 2010

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2011	2010
Assets				
Cash and temporary investments	$ 2,630,928	$ –	$ 2,630,928	$ 2,828,950
Receivables				
Current taxes	2,191,001	303,432	2,494,433	2,633,273
Delinquent taxes	199,836	15,867	215,703	169,137
Due from other governmental units	51,064	6,813	57,877	41,810
Due from other funds	–	286,020	286,020	286,020
Total assets	$ 5,072,829	$ 612,132	$ 5,684,961	$ 5,959,190
Liabilities and Fund Balances				
Liabilities				
Accounts and contracts payable	$ 2,385	$ –	$ 2,385	$ 8,255
Due to other funds	–	52,374	52,374	–
Property taxes levied for subsequent year	3,789,742	525,779	4,315,521	4,535,664
Deferred revenue – delinquent taxes	129,499	9,209	138,708	119,482
Total liabilities	3,921,626	587,362	4,508,988	4,663,401
Fund balances				
Restricted for debt service	1,151,203	24,770	1,175,973	1,295,789
Total liabilities and fund balances	$ 5,072,829	$ 612,132	$ 5,684,961	$ 5,959,190

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011					2010
		Actual				
	Budget	Regular Debt Service Account	OPEB Debt Service Account	Total	Over (Under) Budget	Actual
Revenue						
Local sources						
Property taxes	$ 4,350,000	$ 3,807,807	$ 501,677	$ 4,309,484	$ (40,516)	$ 3,686,554
Investment earnings	–	2,389	–	2,389	2,389	10,029
State sources	152,000	170,216	22,709	192,925	40,925	154,851
Total revenue	4,502,000	3,980,412	524,386	4,504,798	2,798	3,851,434
Expenditures						
Debt service						
Principal	2,815,000	2,635,000	180,000	2,815,000	–	2,410,000
Interest	1,730,000	1,464,250	330,116	1,794,366	64,366	1,887,356
Fiscal charges and other	15,000	15,248	–	15,248	248	10,465
Total expenditures	4,560,000	4,114,498	510,116	4,624,614	64,614	4,307,821
Net change in fund balances	$ (58,000)	(134,086)	14,270	(119,816)	$ (61,816)	(456,387)
Fund balances						
Beginning of year		1,285,289	10,500	1,295,789		1,752,176
End of year		$ 1,151,203	$ 24,770	$ 1,175,973		$ 1,295,789

INDEPENDENT SCHOOL DISTRICT NO. 831

Employee Benefit Trust Funds
Combining Statement of Fiduciary Net Assets
as of June 30, 2011

	Health Savings Plan	Post-Employment Benefits	Totals
Assets			
Cash and short-term investments	$ 1,673,354	$ 818,300	$ 2,491,654
Accounts and interest receivable	552	41,758	42,310
Prepaid items	50	–	50
Investments, at fair value			
U.S. government agency securities	–	547,958	547,958
State and local bonds	–	2,606,089	2,606,089
Negotiable certificates of deposit	–	1,129,188	1,129,188
MNTrust Investment Shares Portfolio	–	607,727	607,727
Total assets	1,673,956	5,751,020	7,424,976
Liabilities			
Accounts payable	1,516,113	–	1,516,113
Due to governmental funds	–	706,771	706,771
Total liabilities	1,516,113	706,771	2,222,884
Net assets			
Held in trust for employee benefits and health savings accounts	$ 157,843	$ 5,044,249	$ 5,202,092

Employee Benefit Trust Funds
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2011

	Health Savings Plan	Post-Employment Benefits	Totals
Additions			
Contributions			
Plan members	$ 16,622	$ –	$ 16,622
Investment earnings	1,862	178,258	180,120
Total additions	18,484	178,258	196,742
Deductions			
Benefits paid to plan members	6,661	420,980	427,641
Change in net assets	11,823	(242,722)	(230,899)
Net assets			
Beginning of year	146,020	5,286,971	5,432,991
End of year	$ 157,843	$ 5,044,249	$ 5,202,092

<u>SUPPLEMENTAL INFORMATION</u>

<u>(UNAUDITED)</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Revenue by Type
Last Nine Fiscal Years

	Program Revenues		General Revenues			
Year Ended June 30,	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	Total
2003	$ 5,182,280	$ 7,375,217	$ 11,035,468	$ 46,280,916	$ 943,805	$ 70,817,686
	7%	10%	16%	66%	1%	100%
2004	5,562,221	7,735,020	15,681,141	42,525,621	862,884	72,366,887
	8%	11%	22%	58%	1%	100%
2005	6,067,984	7,679,669	11,923,890	45,270,716	1,310,745	72,253,004
	8%	11%	17%	62%	2%	100%
2006	5,959,923	8,416,425	8,616,859	48,818,522	2,375,266	74,186,995
	8%	11%	12%	66%	3%	100%
2007	6,016,801	8,063,764	13,094,867	45,730,983	2,339,937	75,246,352
	8%	11%	17%	61%	3%	100%
2008	6,485,734	9,185,900	14,823,882	46,666,381	1,866,334	79,028,231
	8%	12%	19%	59%	2%	100%
2009	6,317,834	8,948,473	15,746,200	46,440,215	809,674	78,262,396
	8%	12%	20%	59%	1%	100%
2010	6,157,018	9,452,410	14,997,282	43,413,186	622,628	74,642,524
	8%	13%	20%	58%	1%	100%
2011	6,370,292	10,511,839	20,845,675	38,446,379	645,610	76,819,795
	8%	14%	27%	50%	1%	100%

Note: The District implemented GASB Statement No. 34 in fiscal year 2003. This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function
Last Nine Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
2003	$ 2,455,416	$ 1,536,875	$ 30,298,116	$ 832,142	$ 7,943,351	$ 3,215,424	$ 6,036,056	$ 8,066,034	$ 272,276	$ 2,954,401	$ 2,711,938	$ –	$ 2,549,612	$ 68,871,641
	4%	2%	44%	1%	12%	5%	9%	12%	–	4%	4%	–	3%	100%
2004	2,648,704	1,734,566	30,278,671	1,094,004	8,469,262	2,695,026	6,804,043	6,401,717	338,699	2,865,040	2,980,790	–	2,379,748	68,690,270
	4%	3%	44%	2%	13%	4%	10%	9%	–	4%	4%	–	3%	100%
2005	2,809,209	2,035,563	29,076,858	1,175,448	8,709,225	3,556,477	6,786,125	6,361,464	325,692	3,284,838	3,290,745	–	3,132,711	70,544,355
	4%	3%	41%	2%	12%	5%	10%	9%	–	5%	5%	–	4%	100%
2006	2,757,056	2,049,890	28,579,775	1,038,149	9,655,088	2,898,715	6,602,951	6,212,304	329,624	3,190,074	3,274,598	2,189,995	3,689,830	72,468,049
	4%	3%	40%	1%	13%	4%	9%	9%	–	4%	5%	3%	5%	100%
2007	2,967,850	2,047,037	26,655,680	1,041,434	9,496,252	3,209,324	7,040,995	6,562,584	260,642	3,599,104	3,608,328	2,182,321	3,470,489	72,142,040
	4%	3%	38%	1%	13%	4%	10%	9%	–	5%	5%	3%	5%	100%
2008	3,051,613	2,245,112	27,717,976	1,094,090	9,695,917	5,448,310	8,055,470	7,000,987	270,631	3,843,780	3,846,748	2,201,117	2,643,884	77,115,635
	4%	3%	37%	1%	13%	7%	10%	9%	–	5%	5%	3%	3%	100%
2009	3,225,772	1,739,222	26,371,372	965,967	9,693,826	5,610,049	7,868,603	7,633,246	273,996	3,961,742	4,152,305	2,208,316	1,598,247	75,302,663
	4%	2%	35%	1%	13%	8%	11%	10%	–	5%	6%	3%	2%	100%
2010	3,147,946	1,702,804	28,492,182	956,606	9,584,548	2,331,929	7,668,210	7,705,210	264,920	3,932,226	3,965,024	2,178,622	1,659,947	73,590,174
	4%	2%	39%	1%	13%	3%	11%	11%	–	5%	6%	3%	2%	100%
2011	3,111,531	2,164,587	30,673,422	920,206	10,368,127	1,598,026	8,948,191	7,157,893	281,925	3,888,660	4,073,291	2,194,397	1,565,753	76,946,009
	4%	3%	40%	1%	14%	2%	12%	9%	–	5%	5%	3%	2%	100%

Note 1: The District implemented GASB Statement No. 34 in fiscal year 2003. This information is not available for previous fiscal years.

Note 2: The District made a change in how the allocation of depreciation expense is presented in fiscal year 2006.

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2002	$ 13,043,088	$ 39,270,580	$ 1,700,601	$ 1,424,510	$ 55,438,779
	24%	71%	3%	2%	100%
2003	6,441,448	50,121,425	1,914,548	1,561,348	60,038,769
	11%	83%	3%	3%	100%
2004	10,660,212	46,725,091	2,103,153	1,753,443	61,241,899
	17%	76%	4%	3%	100%
2005	7,331,659	49,652,412	1,792,104	1,800,101	60,576,276
	12%	82%	3%	3%	100%
2006	4,372,565	53,297,447	1,946,196	2,195,700	61,811,908
	7%	86%	3%	4%	100%
2007	8,457,227	49,617,283	2,463,213	1,858,222	62,395,945
	14%	79%	4%	3%	100%
2008	10,066,599	51,412,562	2,657,533	1,951,422	66,088,116
	15%	78%	4%	3%	100%
2009	10,914,411	51,121,188	2,347,273	1,487,289	65,870,161
	17%	78%	3%	2%	100%
2010	10,431,320	43,539,037	7,374,372	1,668,808	63,013,537
	17%	69%	12%	2%	100%
2011	15,333,557	44,072,843	3,300,695	1,734,346	64,441,441
	24%	68%	5%	3%	100%

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total
2002	$ 2,341,212	$ 1,409,726	$ 24,251,909	$ 843,129	$ 7,169,057	$ 2,992,228	$ 5,336,573	$ 7,188,943	$ 516,976	$ 52,049,753
	4%	3%	46%	2%	14%	6%	10%	14%	1%	100%
2003	2,462,697	1,531,602	26,830,293	833,847	7,930,204	2,822,040	6,155,689	8,697,106	456,989	57,720,467
	4%	3%	46%	1%	14%	5%	11%	15%	1%	100%
2004	2,644,716	1,681,278	27,782,628	1,095,426	8,484,810	2,305,745	6,614,500	8,689,188	441,673	59,739,964
	4%	3%	47%	2%	14%	4%	11%	14%	1%	100%
2005	2,806,218	1,995,598	27,164,930	1,172,729	8,698,078	3,225,609	6,565,441	7,757,664	785,541	60,171,808
	5%	3%	46%	2%	14%	5%	11%	13%	1%	100%
2006	2,760,130	2,006,210	27,693,138	1,035,779	9,657,613	2,889,663	6,585,926	7,064,417	900,773	60,593,649
	5%	3%	46%	2%	15%	5%	11%	12%	1%	100%
2007	2,953,560	2,043,448	28,207,427	1,039,064	9,522,655	3,204,444	7,321,452	7,417,758	366,580	62,076,388
	5%	3%	45%	2%	15%	5%	12%	12%	1%	100%
2008	2,966,614	2,243,347	28,931,023	1,091,720	9,691,275	5,443,794	8,422,890	7,923,051	336,721	67,050,435
	4%	3%	43%	2%	14%	8%	13%	12%	1%	100%
2009	3,613,965	1,949,761	31,798,935	1,077,914	9,691,245	5,877,717	8,454,240	8,937,592	340,086	71,741,455
	5%	3%	44%	2%	14%	8%	12%	12%	–	100%
2010	3,042,912	1,691,524	29,049,049	954,236	9,503,795	2,300,442	7,410,014	8,335,957	334,789	62,622,718
	5%	3%	46%	2%	15%	4%	12%	13%	–	100%
2011	3,051,637	2,147,647	29,779,750	917,836	10,293,896	1,581,361	8,661,991	8,023,299	342,586	64,800,003
	5%	3%	46%	1%	16%	2%	14%	12%	1%	100%

INDEPENDENT SCHOOL DISTRICT NO. 831

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2002	$ 6,324,848	$ 576,414	$ 4,531,983	$ 11,433,245
	2003	7,554,679	644,184	4,566,568	12,765,431
	2004	7,611,248	604,917	4,409,613	12,625,778
	2005	7,236,750	648,212	4,239,165	12,124,127
	2006	8,306,042	677,634	4,254,284	13,237,960
	2007	9,457,159	672,044	4,278,001	14,407,204
	2008	11,427,166	646,625	4,300,748	16,374,539
	2009	11,003,562	811,642	3,863,851	15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
	2011	10,432,345	877,092	4,315,521	15,624,958
Tax rates					
Tax capacity rates					
	2002	5.693	1.930	15.174	22.797
	2003	7.708	2.083	14.766	24.557
	2004	7.211	1.648	12.013	20.872
	2005	4.792	1.495	9.777	16.064
	2006	3.834	1.405	8.821	14.060
	2007	3.291	1.223	7.785	12.299
	2008	6.560	1.121	7.456	15.137
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
	2011	5.497	1.676	8.238	15.411
Market value rates					
	2002	0.19686	–	–	0.19686
	2003	0.17319	–	–	0.17319
	2004	0.14238	–	–	0.14238
	2005	0.12735	–	–	0.12735
	2006	0.14346	–	–	0.14346
	2007	0.14980	–	–	0.14980
	2008	0.13758	–	–	0.13758
	2009	0.13385	–	–	0.13385
	2010	0.13710	–	–	0.13710
	2011	0.15293	–	–	0.15293

Note: A tax rate based on market value is used for the District's referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values
Last Ten Fiscal Years

For Taxes Collectible	Net Tax Capacities						Market Value
	Agricultural	Non-Agricultural	Tax Increment	Fiscal Disparities Contribution	Fiscal Disparities Distribution	Total Taxable	
2002	$ 1,593,198	$ 25,446,860	$ (1,019,109)	$ (1,296,914)	$ 2,391,233	$ 27,115,268	$ 2,346,377,545
2003	1,738,109	29,077,779	(763,880)	(1,575,164)	2,638,377	31,115,221	2,698,222,900
2004	1,940,174	34,020,370	(835,194)	(1,730,466)	2,814,992	36,209,876	3,149,668,601
2005	2,411,895	40,145,142	(1,046,493)	(2,052,670)	3,002,063	42,459,937	3,725,534,200
2006	2,481,373	45,627,433	(1,141,785)	(2,401,535)	3,206,563	47,772,049	4,217,089,550
2007	2,709,315	52,086,704	(1,411,751)	(2,644,014)	3,683,949	54,424,203	4,768,571,475
2008	2,874,655	56,154,555	(1,469,991)	(3,228,204)	4,124,028	58,455,043	5,127,128,875
2009	2,922,594	57,485,174	(1,680,233)	(3,385,987)	4,606,475	59,948,023	5,186,459,175
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891	58,146,764	4,988,746,100
2011	1,892,928	51,378,555	(1,383,497)	(3,871,485)	4,938,071	52,954,572	4,505,366,200

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Original Levy				Uncollected Taxes Receivable as of June 30, 2011			
					Delinquent		Current	
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread	Amount	Percent	Amount	Percent
2002	$ 9,628,173	$ 1,172,361	$ 632,711	$ 11,433,245	$ –	– %	$ –	– %
2003	10,989,162	1,094,398	681,871	12,765,431	–	–	–	–
2004	10,857,282	1,153,214	615,282	12,625,778	–	–	–	–
2005	10,631,729	1,029,769	462,629	12,124,127	17,155	0.14	–	–
2006	11,927,070	900,660	410,230	13,237,960	12,116	0.09	–	–
2007	13,065,100	1,018,059	324,045	14,407,204	25,547	0.18	–	–
2008	14,935,081	1,087,795	351,663	16,374,539	69,077	0.42	–	–
2009	14,061,436	1,295,342	322,277	15,679,055	191,810	1.22	–	–
2010	13,330,800	1,289,782	315,671	14,936,253	455,944	3.05	–	–
2011	13,968,510	1,265,177	391,271	15,624,958	–	–	8,825,677	56.48
					$ 771,649		$ 8,825,677	

Note: A portion of the total spread levy is paid through various property tax credits, which are paid through state aids.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Adjusted Average Daily Membership (ADM) Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2002	52.16	440.95	3,541.16	3,719.70	7,753.97	8,987.70
2003	52.16	506.30	3,507.83	3,711.85	7,778.14	8,979.87
2004	57.64	510.03	3,390.43	3,680.34	7,638.44	8,821.44
2005	71.10	455.68	3,252.05	3,691.93	7,470.76	8,668.05
2006	68.93	441.65	3,201.44	3,682.22	7,394.24	8,591.93
2007	88.27	441.24	3,117.69	3,608.74	7,255.94	8,425.83
2008	98.84	419.61	3,043.15	3,551.31	7,112.91	8,292.99
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	94.90	417.96	2,981.31	3,279.96	6,774.13	7,870.97
2011	94.18	466.72	2,980.24	3,209.91	6,751.05	7,808.83

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: Beginning in fiscal 2004 ADM is limited to 1.0 ADM per student.

Note 3: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2002 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2011	1.250	1.000	0.612	1.115	1.060	1.300

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	$ 146,965	
National School Lunch Program	10.555	993,513	
Total child nutrition cluster			1,140,478
U.S. Department of Education			
Direct			
Indian Education – Grants to Local Educational Agencies	84.060		9,119
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	1,211,991	
Special Education – Preschool Grants	84.173	50,880	
ARRA – Special Education – Grants to States	84.391	657,515	
ARRA – Special Education – Preschool Grants	84.392	49,372	
Total special education cluster			1,969,758
Title I, Part A cluster			
Title I Grants to Local Educational Agencies	84.010	347,602	
ARRA – Title I Grants to Local Educational Agencies	84.389	152,597	
Total Title I, Part A cluster			500,199
Early intervention services cluster			
Special Education – Grants for Infants and Families	84.181	326,872	
ARRA – Special Education – Grants for Infants and Families	84.393	28,112	
Total early intervention services cluster			354,984
English Language Acquisition Grants	84.365		10,801
Improving Teacher Quality State Grants	84.367		185,357
Education Jobs Fund	84.410		260,142
Passed through Northeast Metropolitan Intermediate School District No. 916			
Career and Technical Education – Basic Grants to States	84.048		19,237
Total federal awards			$ 4,450,075

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: Non-monetary assistance of $115,693 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

Note 3: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 4: The District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA No.	Amount Provided
Special Education – Grants for Infants and Families	84.181	$ 282,344

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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

To the School Board of
Independent School District No. 831
Forest Lake, 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. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(continued)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated November 21, 2011.

This report is intended solely for the information and use of management, the School Board, others within the District, 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.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

November 21, 2011

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

To the School Board of
Independent School District No. 831
Forest Lake, Minnesota

Compliance

We have audited Independent School District No. 831, Forest Lake, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 C*ompliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

(continued)

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Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, the School Board, others within the District, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

November 21, 2011

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Kenneth W. Malloy, CPA
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH MINNESOTA STATE LAWS AND REGULATIONS

To the School Board of
Independent School District No. 831
Forest Lake, 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. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 21, 2011.

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

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

The results of our tests indicate that, for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

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

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

November 21, 2011

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?

X Unqualified
___ Qualified
___ Adverse
___ Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported

Type of auditor's report issued on compliance for major programs?

X Unqualified
___ Qualified
___ Adverse
___ Disclaimer

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education special education cluster consisting of:	
– Special Education – Grants to States	84.027
– ARRA – Special Education – Grants to States	84.391
– Special Education – Preschool Grants	84.173
– ARRA – Special Education – Preschool Grants	84.392
The U.S. Department of Education – early intervention services cluster consisting of:	
– Special Education – Grants for Infants and Families	84.181
– ARRA – Special Education – Grants for Infants and Families	84.393
The U.S. Department of Education – Title I, Part A cluster consisting of:	
– Title I Grants to Local Educational Agencies	84.010
– ARRA – Title I Grants to Local Educational Agencies	84.389
The U.S. Department of Agriculture child nutrition cluster consisting of:	
– National School Lunch Program	10.555
– School Breakfast Program	10.553

Threshold for distinguishing type A and B programs.	$ 300,000	
Does the auditee qualify as a low-risk auditee?	___ Yes	X No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

None.

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER COMPLIANCE AND REPORTABLE INSTANCES OF NONCOMPLIANCE – *SPECIAL EDUCATION CLUSTER (ARRA SPECIAL EDUCATION – GRANTS TO STATES – CFDA NO. 84.391 AND ARRA SPECIAL EDUCATION – PRESCHOOL GRANTS – CFDA NO. 84.392), TITLE I CLUSTER (ARRA – TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA NO. 84.389), ARRA – STATE FISCAL STABILIZATION FUNDS – EDUCATION STATE GRANTS – CFDA NO. 84.394, AND EARLY INTERVENTION SERVICES CLUSTER (ARRA – SPECIAL EDUCATION – GRANTS FOR INFANTS AND FAMILIES – CFDA NO. 84.393)*

2010-1 Internal Control Over Compliance With Federal Reporting Requirements

Condition – During our audit, we noted that Independent School District No. 831, Forest Lake, Minnesota (the District) did not have sufficient controls in place to assure compliance with federal reporting requirements for the major programs noted above, which resulted in noncompliance with a type of federal compliance requirement that could have a direct and material effect on these programs. The District did not properly submit all of the four required quarterly jobs data surveys for each of these programs.

Recommendation – We recommend that the District submit the quarterly surveys to report the number of the jobs created and retained as a result of funding received through the ARRA.

Current Status – This is not a current year finding.

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2011

			Audit		UFARS		Audit – UFARS
General Fund							
Total revenue		$	64,441,441	$	64,441,441	$	–
Total expenditures		$	64,800,003	$	64,800,004	$	(1)
Nonspendable							
460	Nonspendable fund balance	$	206,330	$	206,330	$	–
Restricted/reserve							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	(101,416)	$	(101,416)	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
411	Severance pay	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	103,117	$	103,117	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
446	First grade preparedness	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	823,777	$	823,777	$	–
Unassigned							
422	Unassigned fund balance	$	4,578,641	$	4,578,641	$	–
Food Service							
Total revenue		$	3,684,986	$	3,684,985	$	1
Total expenditures		$	3,779,637	$	3,779,636	$	1
Nonspendable							
460	Nonspendable fund balance	$	68,519	$	68,519	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	818,817	$	818,817	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	4,158,121	$	4,158,122	$	(1)
Total expenditures		$	4,064,758	$	4,064,760	$	(2)
Nonspendable							
460	Nonspendable fund balance	$	5,128	$	5,128	$	–
Restricted/reserve							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	495,173	$	495,173	$	–
432	ECFE	$	122,121	$	122,121	$	–
444	School readiness	$	–	$	–	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	30,827	$	30,827	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2011

		Audit		UFARS		Audit – UFARS	
Building Construction							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
407	Capital projects levy	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
413	Project funded by COP	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Debt Service							
Total revenue		$	3,980,412	$	3,980,412	$	–
Total expenditures		$	4,114,498	$	4,114,498	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
425	Bond refundings	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	1,151,203	$	1,151,203	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Trust							
Total revenue		$	18,484	$	18,484	$	–
Total expenditures		$	6,661	$	6,662	$	(1)
422	Net assets	$	157,843	$	157,842	$	1
Internal Service							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net assets	$	–	$	–	$	–
OPEB Revocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net assets	$	–	$	–	$	–
OPEB Irrevocable Trust Fund							
Total revenue		$	178,258	$	178,257	$	1
Total expenditures		$	420,980	$	420,981	$	(1)
422	Net assets	$	5,044,249	$	5,044,248	$	1
OPEB Debt Service Fund							
Total revenue		$	524,386	$	524,386	$	–
Total expenditures		$	510,116	$	510,116	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
425	Bond refundings	$	–	$	–	$	–
464	Restricted fund balance	$	24,770	$	24,770	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.