

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

Audited Financial Statements
For the Fiscal Year Ended June 30, 2008

PRELIMINARY

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

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**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

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PRELIMINARY

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2008**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Patti Pokorney	Chairperson	December 31, 2011
Dave Wilson	Vice Chairperson	December 31, 2009
Sue Lee	Clerk	December 31, 2009
Jeff Mattson	Acting Clerk/Treasurer	December 31, 2009
Dean Brown*	Treasurer	December 31, 2011
Rolf Mohwinkel	Director	December 31, 2011

Melissa Brings
Administration
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Director
December 31, 2011

James Bauck	Superintendent
Chuck Klaassen	Director of Finance and Operations
Tina Burkholder	Controller

* Resigned as of June 30, 2008



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INDEPENDENT AUDITOR'S REPORT

October 13, 2008

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2008, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget *OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations* and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information and the Uniform Financial Accounting and Reporting Standards Compliance Table have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other District information identified in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

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INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2007-2008) and the prior year (2006-2007) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-2008 fiscal year include the following:

- P**RELLIMINARY
- The District's total combined net assets increased over 47.17% over the course of the year and were \$ 21.1 million at June 30, 2008.
 - During the year, the District's expenses were \$ 60.6 million and its revenues were \$ 63.7 million.
 - The General Fund reported an unreserved/undesignated fund balance this year of \$ 4.2 million.
 - The District issued approximately \$ 3.2 million in aid anticipation certificates to manage its cash flow.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: independent auditor's report, required supplementary information which includes the MD&A, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

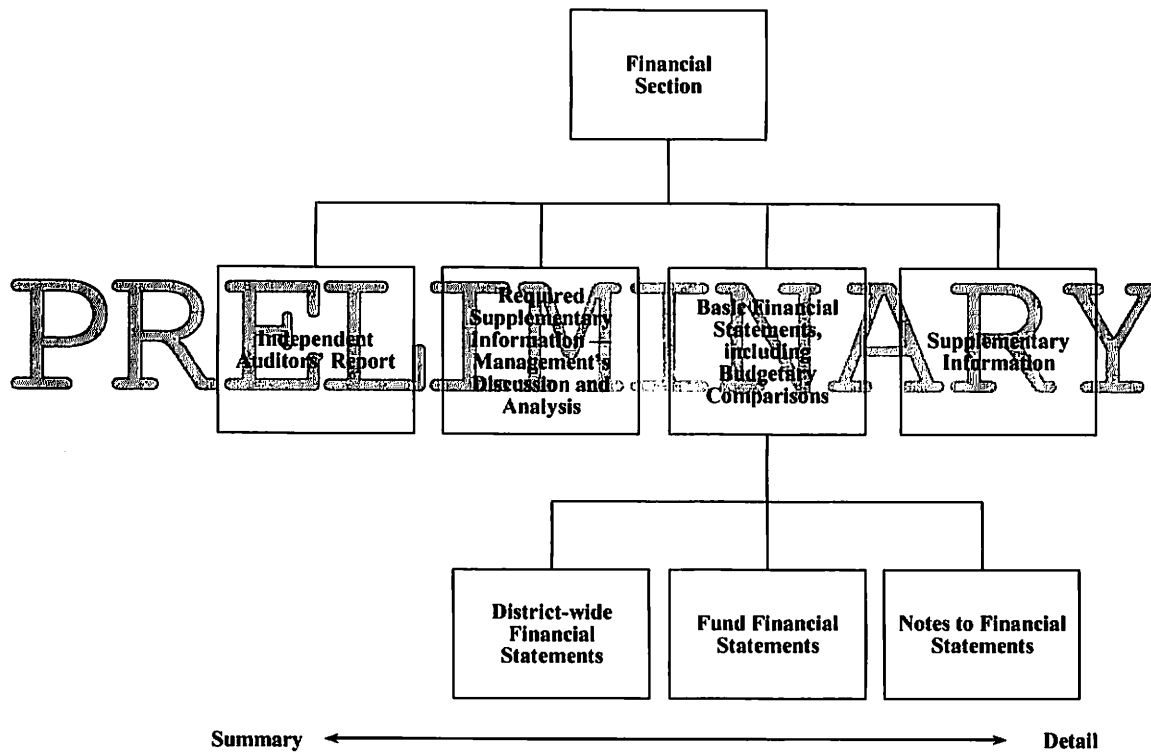
- The first two statements are the district-wide financial statements that provide both short- and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

The financial statements also include notes that explain in more detail information in the basic financial statements. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Financial Report**



INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements		
	District-wide Statements	Fund Financial Statements - Governmental
Scope	Entire district	The activities of the District that are not proprietary, such as special education, building maintenance, food service, and community education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. The term "net assets" is defined as the difference between the District's assets and liabilities and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

In the district-wide financial statements, the District's activities are shown in one category:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state appropriations finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.

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• The District establishes other funds to control and manage money for particular purposes (e.g. repaying its long-term debts) or to show that it is properly using certain revenues (e.g. federal grants)

The District has one type of fund:

- **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's consolidated net assets increased 47.17% and were \$ 21,124,631 on June 30, 2008. (See Table A-1). The District's current liabilities increased 16.08% from the \$ 3.2 million aid anticipation certificate approved by the School Board in June 2007.

The restricted net assets increased mainly from the reimbursement of capital lease proceeds on the new phone system in 2006-2007. The unrestricted net assets increased due to the prior period adjustment relating to the District's post-employment severance and health benefits payable.

Table A-1
The District's Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Percentage Change
Current and Other Assets	\$ 33,759,732	\$ 33,292,063	1.59%
Capital and Non-Current Assets	78,286,056	76,018,230	2.98%
Total Assets	112,045,788	109,250,293	2.56%
Current Liabilities	24,622,834	21,211,364	16.08%
Long-term Liabilities	66,298,323	73,685,289	-10.03%
Total Liabilities	90,921,157	94,896,653	-4.19%
Net Assets			
Invested in Capital Assets, Net of Related Debt	13,495,809	11,362,599	18.77%
Restricted	1,660,721	1,100,426	50.92%
Unrestricted	5,968,101	1,890,615	215.67%
Total Net Assets	<u>\$ 21,124,631</u>	<u>\$ 14,353,640</u>	47.17%

Change in Net Assets

The net change in assets for 2007-2008 was \$ 3,055,543 based on total revenues of \$ 63.7 million and total expenses of \$ 60.6 million. Table A-2 shows the breakdown into the various revenue and expense categories. In 2007-2008, the District experienced additional State Special Education funding and the first year of the one-time capital funds from the 2007 legislative session. Overall, expenses were relatively stable as staff levels were frozen during the 2007-2008 school year.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Table A-2
Change in Net Assets

	Governmental Activities		Percentage Change
	2008	2007	
Revenues			
Program Revenues			
Charges for Services	\$ 4,207,334	\$ 3,866,999	8.80%
Operating Grants and Contributions	8,997,393	8,092,687	11.18%
Capital Grants and Contributions	1,537,797	1,242,500	23.77%
General Revenues			
Property Taxes	12,690,219	10,940,977	15.99%
Unrestricted State Aid	33,985,020	32,648,998	4.09%
Investment Earnings	974,739	1,004,879	-3.00%
Other	1,279,780	1,226,178	4.37%
Total Revenues	<u>63,672,282</u>	<u>59,023,218</u>	7.88%
Expenses			
Administration	1,486,662	1,440,138	3.23%
District Support Services	1,088,081	1,265,703	-14.03%
Regular Instruction	27,854,677	28,105,966	-0.89%
Vocational Education Instruction	1,252,899	1,280,376	-2.15%
Special Education Instruction	8,386,011	7,650,770	9.61%
Instructional Support Services	3,275,204	3,268,572	0.20%
Pupil Support Services	3,355,640	3,952,476	-15.10%
Sites and Buildings	5,007,817	4,477,915	11.83%
Fiscal and Other Fixed Cost Programs	317,804	219,839	44.56%
Food Service	2,735,326	2,193,615	24.69%
Community Service	2,699,478	2,468,284	9.37%
Interest and Fiscal Charges on Long-term Liabilities	3,157,140	3,356,784	-5.95%
Total Expenses	<u>60,616,739</u>	<u>59,680,438</u>	1.57%
Change in Net Assets	3,055,543	(657,220)	-564.92%
Beginning Net Assets	14,353,640	15,010,860	-4.38%
Prior Period Adjustment	3,715,448	-	0.00%
Ending Net Assets	<u>\$ 21,124,631</u>	<u>\$ 14,353,640</u>	47.17%

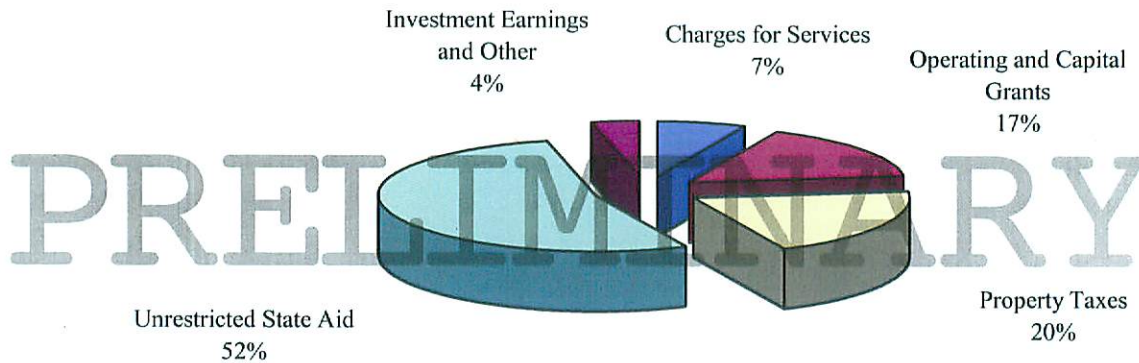
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

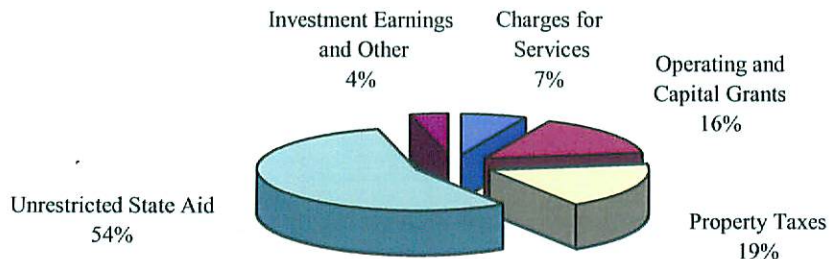
Revenues

The District's total revenues were approximately \$ 63.7 million for the year ended June 30, 2008. Property taxes and state formula aid accounted for 72% of total revenue for the year. (See Figure A-3). Another 4% came from other general revenues combined with investment earnings, and the remaining 24% from program revenues.

**Figure A-3
Sources of District's Revenues for Fiscal 2008**



Sources of District's Revenues for Fiscal 2007



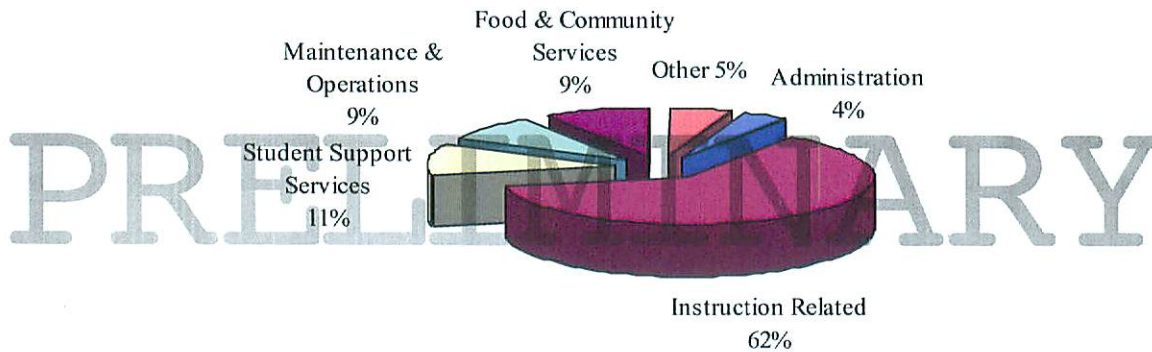
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

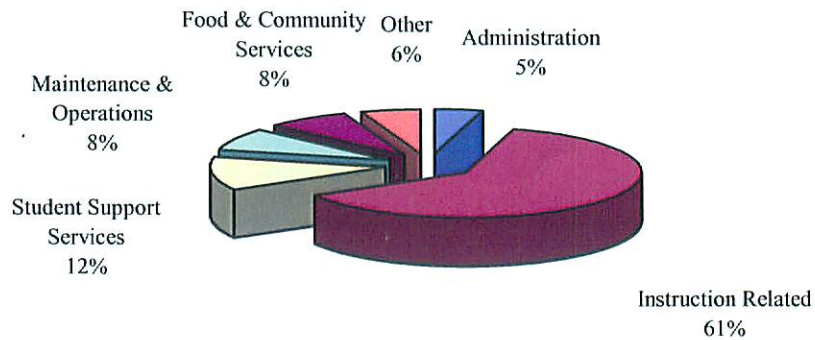
Expenses

The total cost of all programs and services rose 1.57% to \$ 60,616,739. The District's expenses are predominantly related to educating, caring for and transporting students. The administrative expenses of the District accounted for 4-5% of total costs for the past two fiscal years. (See Figure A-4).

**Figure A-4
District Expenses for Fiscal 2008**



District Expenses for Fiscal 2007



**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

Governmental Activities

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds of Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 73% of those resources are spent on instruction and support services associated with instruction.

Table A-3 presents the cost of twelve major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Some of the cost was paid by the users of the District's program revenue of \$ 4,207,334. The federal and state governments subsidized certain programs with grants and contributions \$ 8,997,293 for operating purposes and \$ 1,537,797 for capital purposes. District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of \$ 48,929,758. The remaining portion of governmental activities was paid for with \$ 12,690,219 in property taxes, \$ 33,985,020 of state aid based on the statewide education aid formula, and \$ 2,254,519 with investment earnings and other general revenues.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2008	2007		2008	2007	
Administration	\$ 1,486,662	\$ 1,440,138	3.23%	\$ 1,486,662	\$ 1,440,138	3.23%
District Support Services	1,088,081	1,265,703	-14.03%	1,075,468	1,253,695	-14.22%
Regular Instruction	27,854,677	28,105,966	-0.89%	24,315,648	24,766,975	-1.82%
Vocational Education						
Instruction	1,252,899	1,280,376	-2.15%	1,276,987	1,200,084	6.41%
Special Education						
Instruction	8,386,011	7,650,770	9.61%	2,988,333	3,188,656	-6.28%
Instructional Support						
Services	3,275,204	3,268,572	0.20%	3,275,204	3,268,572	0.20%
Pupil Support Services	3,355,640	3,952,476	-15.10%	3,150,267	3,768,731	-16.41%
Sites and Buildings	5,007,817	4,477,915	11.83%	4,173,472	3,681,292	13.37%
Fiscal and Other Fixed						
Cost Programs	317,804	219,839	44.56%	248,220	187,575	32.33%
Food Service	2,735,326	2,193,615	24.69%	199,011	(211,622)	-194.04%
Community Service	2,699,478	2,468,284	9.37%	527,803	577,372	-8.59%
Interest and Fiscal Charges						
on Long-term Liabilities	3,157,140	3,356,784	-5.95%	3,157,140	3,356,784	-5.95%
Total	<u>\$ 60,616,739</u>	<u>\$ 59,680,438</u>	1.57%	<u>\$ 45,874,215</u>	<u>\$ 46,478,252</u>	-1.30%

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 14,266,979.

Revenues for the District's governmental funds were \$ 63,590,158 while total expenditures were \$ 67,287,803. As a result, the District completed the year with a net change in fund balance of (\$ 3,697,645).

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues.

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	Year Ended		Change	
	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent
Property Taxes	\$ 5,044,603	\$ 4,168,119	\$ 876,484	21.03%
Other Local and County Revenues	2,049,547	2,022,362	27,185	1.34%
State Sources	41,291,513	38,418,259	2,873,254	7.48%
Federal Sources	1,561,688	2,006,458	(444,770)	-22.17%
Sales and Other Conversion of Assets	113,277	72,032	41,245	57.26%
Total Revenue	\$ 50,060,628	\$ 46,687,230	\$ 3,373,398	7.23%

Total General Fund revenue increased by \$ 3,373,398, or 7.23%, from the previous year. Local property taxes increased \$ 876,484 from the 2006-2007 fiscal year whereas the revenue from State Sources increased \$ 2,873,254. The 2006-2007 school year was the final year the District received the federal Arts Magnet grant which was approximately \$ 291,000.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

The following schedule presents a summary of General Fund expenditures.

	Year Ended		Change	
	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent
Salaries	\$ 28,764,421	\$ 27,792,136	\$ 972,285	3.50%
Employee Benefits	8,931,778	8,294,493	637,285	7.68%
Purchased Services	6,591,615	7,622,949	(1,031,334)	-13.53%
Supplies and Materials	3,007,667	2,928,047	79,620	2.72%
Capital Expenditures	2,099,454	2,557,201	(457,747)	-17.90%
Other Expenditures	400,870	376,423	24,447	6.49%
Total Expenditures	\$ 49,795,805	\$ 49,571,249	\$ 224,556	0.45%

Total General Fund expenditures increased \$ 224,556, or 0.45%, from the previous year. In 2007-2008, the District experienced a hiring freeze and staffing levels were the same as the prior year. The increase of \$ 972,285 of salary expenditures or 3.5% is consistent with the average increase in the District's negotiated employee contracts. Employee benefits increased \$ 637,285, or 7.68%. Employee benefits include health insurance premiums which increased 8.7% from the prior year. The District's capital expenditures were \$ 457,747 less than the prior year mainly from the Phoenix addition and phone project completed during the 2006-2007 school year. The District also settled a new transportation contract for the 2007-2008 school year, realizing a savings of \$ 1.0 million in the first year.

In 2007-2008, General Fund revenues exceeded expenditures by \$ 264,823. As a result, the total fund balance at June 30, 2008 increased to \$ 7,496,270 of which \$ 3,263,044 is restricted or designated. The undesignated-unreserved fund balance increased by \$ 801,024 from the prior year, ending at a balance of \$ 4,233,226 at June 30, 2008. Part of the increase resulted from the one-time operating capital transfer of \$ 327,355 approved by the School Board. The District closely monitors its fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

General Budgetary Highlights

The District revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fall into following two categories:

- Additional staffing due to enrollment increases.
- Increased spending in textbooks, technology, and other expenditures related to the opening of new facilities.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by more than \$ 879,690, the actual results for the year show \$ 264,823 excess revenue over expenditures. Revenues were slightly over the District's final budget by 2.6% whereas expenditures stayed within 0.3%.

Actual revenues were about \$ 1,290,886 more than expected. Due to increased enrollment, the District received \$ 304,440 more of General Education Aid than what was anticipated. Another \$ 292,800 is from State Special Education Aid of which more than half is Special Education Excess Cost Aid. The District also received \$ 103,800 from other school districts for shared services, \$ 50,000 in e-rate revenue, and \$ 73,600 in Federal Special Education Aid. Approximately \$ 70,500 more interest revenue was earned due to borrowing short-term and increasing cash balances throughout the year.

- The actual expenditures were \$ 146,373 over budget. Salaries and employee benefits combined were \$ 85,500 under budget. Purchased services were over budget \$ 568,488 which can be attributed to Special Education tuition agreements. Supplies and capital expenditures together were under budget \$ 458,300. The interest cost of borrowing short-term was over budget \$ 99,300, but the interest earned during the year help offset this cost.

CAPITAL PROJECTS AND DEBT SERVICE FUNDS

The Capital Projects expenditures exceeded revenue by \$ 4,288,767, resulting in a fund balance of \$ 5,094,290 at June 30, 2008.

The Debt Service Fund revenue exceeded expenditures by \$ 453,573 in fiscal year 2007-2008. The remaining fund balance of \$ 1,286,042 at June 30, 2008 is available for meeting future debt service obligations.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

OTHER NON-MAJOR FUNDS

The Food Service Fund expenditures exceeded revenues by \$ 217,231 due to the purchase of the Buffalo Community Middle School serving line, replacing water softeners and taking over the online payment fees, decreasing its fund balance to \$ 117,968.

The Community Service Fund revenues exceeded expenditures by \$ 89,957 and increased its fund balance to \$ 272,409 at June 30, 2008, of which \$ 260,495 is restricted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had invested approximately \$ 107.0 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. (See Table A-6). This amount represents a net increase of \$ 5.4 million or 5.30% from last year. Total depreciation expense for the year was approximately \$ 3.2 million. More detailed information about capital assets can be found in Note 4 to the financial statements.

P R E L I M I N A R Y

**Table A-6
The District's Capital Assets**

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 4,304,158	\$ 3,474,158	23.89%
Construction in Progress	966,514	1,227,598	-21.27%
Land Improvements	2,538,825	2,506,905	1.27%
Buildings and Improvements	94,865,966	90,580,799	4.73%
Equipment and Transportation Vehicles	4,370,620	3,866,660	13.03%
Total Historical Cost	<u>107,046,083</u>	<u>101,656,120</u>	5.30%
Less: Accumulated Depreciation	<u>(28,760,027)</u>	<u>(25,637,890)</u>	12.18%
Total	<u>\$ 78,286,056</u>	<u>\$ 76,018,230</u>	2.98%

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

Construction - Next Five Years

The final phases on the various window replacements and lighting upgrade projects were completed during the 2007-2008 school year. The Buffalo Community Middle School roof project was put on hold until the Hanover land negotiations were finalized.

In December 2005, the District sold \$ 9.0 million Alternate Facilities bonds for health and safety projects at Tatanka Elementary, Discovery Elementary, Montrose Elementary and Hanover Elementary. Discovery Elementary ventilation project was the final and remaining project in progress as of June 30, 2008.

Long-term Debt

At year-end, the District had \$ 69,884,537 in general obligation bonds and capital leases, a decrease of 5.61% from last year as shown in Table A-7. The District also had \$ 419,706 in future post-employment severance benefits payable at June 30, 2008. The Board has designated \$ 1,430,324 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

	2008	2007	Percentage Change
General Obligation Bonds	\$ 68,820,000	\$ 72,830,000	-5.51%
Net Bond Premium and Discount	(58,897)	(63,923)	-7.86%
Net General Obligation Bonds	68,761,103	72,766,077	-5.50%
Obligations Under Capital Leases	1,123,434	1,272,611	-11.72%
Net G.O. Bonds and Capital Leases	69,884,537	74,038,688	-5.61%
Severance Payable	419,706	4,135,154	-89.85%
Compensated Absences Payable	120,030	307,967	-61.03%
Total	\$ 70,424,273	\$ 78,481,809	-10.27%

Bond Ratings

The District's general obligation bonds carry a rating of Aa2 according to the most recent Moody's Investor Service Rating

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. Our outstanding debt is significantly below this limit.

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 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.

During the 2007 Legislative session, the basic general education aid formula was increased approximately 2 percent for 2007-2008 and 1 percent for 2008-2009. The fall 2008 projections of a state budget deficit of up to \$ 4 billion suggest that the basic education funding formula may well be held flat for the next several years. Operating referendums of \$ 110 and \$ 379 per pupil are set to expire in 2010 and 2012 respectively. Those referendums will need to be renewed. All of this suggests that either a new operating referendum needs to be passed or additional major budget reductions will need to be made.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 877, 214 1st Avenue NE, Buffalo, Minnesota 55313.

PRELIMINARY

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Cash and Investments	\$ 19,488,063
Current Property Taxes Receivable	7,440,417
Delinquent Property Taxes Receivable	265,595
Accounts Receivable	244,083
Interest Receivable	92,889
Due from Department of Education	4,440,705
Due from Other Minnesota School Districts	155,259
Due from Federal Government through Department of Education	996,727
Due from Other Governmental Units	318,084
Inventory	176,042
Prepaid Items	141,868
Capital Assets, Net of Accumulated Depreciation:	
Land	4,304,158
Construction in Progress	966,514
Land Improvements	1,059,524
Buildings	69,825,581
Machinery and Equipment	2,130,279
	<u>\$ 112,045,788</u>
PRELIMINARY	
LIABILITIES AND NET ASSETS:	
Liabilities:	
Accounts Payable	\$ 1,993,812
Salaries and Benefits Payable	815,225
Interest Payable	1,393,076
Due to Other Minnesota School Districts	438,838
Due to Other Governmental Units	63,667
Unearned Revenue	53,063
Property Taxes Levied for Subsequent Year's Expenditures	12,522,859
Aid Anticipation Certificates Payable	3,200,000
Bond Principal Payable:	
Payable Within One Year	3,789,973
Payable After One Year	64,971,130
Capital Lease Payable:	
Payable Within One Year	155,739
Payable After One Year	967,695
Compensated Absences Payable:	
Payable Within One Year	120,030
Severance Payable:	
Payable Within One Year	76,552
Payable After One Year	359,498
Total Liabilities	<u>90,921,157</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	13,495,809
Restricted for:	
Debt Service	177,526
Other Purposes	1,483,195
Unrestricted	5,968,101
Total Net Assets	<u>21,124,631</u>
	<u>\$ 112,045,788</u>

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
Governmental Activities:					Governmental Activities
Administration	\$ 1,486,662	\$ -	\$ -	\$ -	\$ (1,486,662)
District Support Services	1,088,081	12,613	-	-	(1,075,468)
Elementary and Secondary Regular Instruction	27,854,677	313,513	2,483,152	742,364	(24,315,648)
Vocational Education Instruction	1,252,899	-	(24,088)	-	(1,276,987)
Special Education Instruction	8,386,011	164,070	5,233,608	-	(2,988,333)
Instructional Support Services	3,275,204	-	-	-	(3,275,204)
Pupil Support Services	3,355,640	97,210	108,163	-	(3,150,267)
Sites and Buildings	5,007,817	38,912	-	795,433	(4,173,472)
Fiscal and Other Fixed Cost Programs	317,804	69,584	-	-	(248,220)
Food Service	2,735,326	1,724,180	812,135	-	(199,011)
Community Education and Services	2,699,478	1,787,252	384,423	-	(527,803)
Interest and Fiscal Charges on Long-Term Debt	3,157,140	-	-	-	(3,157,140)
Total Governmental Activities	\$ 60,616,739	\$ 4,207,334	\$ 8,997,393	\$ 1,537,797	(45,874,215)
General Revenues:					
Taxes					
Property Taxes, Levied for General Purposes					5,077,494
Property Taxes, Levied for Community Service					450,944
Property Taxes, Levied for Debt Service					7,161,781
State Aid-Formula Grants					33,985,020
Other General Revenues					1,279,780
Investment Income					974,739
Total General Revenues					48,929,758
Change in Net Assets					3,055,543
Net Assets - Beginning					14,353,640
Prior Period Adjustment					3,715,448
Net Assets - Beginning, Restated					18,069,088
Net Assets - Ending					\$ 21,124,631

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General	Building Construction	Debt Service
ASSETS:			
Cash and Investments	\$ 8,814,080	\$ 5,769,354	\$ 4,250,242
Current Property Taxes Receivable	3,107,039	-	4,064,125
Delinquent Property Taxes Receivable	103,982	-	151,515
Accounts Receivable	244,083	-	-
Interest Receivable	25,751	67,138	-
Due from Department of Education	4,348,452	-	44,282
Due from Federal Government through Department of Education	996,727	-	-
Due from Other Minnesota School Districts	90,339	-	-
Due from Other Governmental Units	317,874	-	-
Inventory	112,747	-	-
Prepaid Items	141,868	-	-
Total Assets	\$ 18,302,942	\$ 5,836,492	\$ 8,510,164
PRELIMINARY			
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 1,168,149	\$ 742,202	\$ -
Salaries and Benefits Payable	727,948	-	-
Interest Payable	123,350	-	-
Due to Other Minnesota School Districts	438,838	-	-
Due to Other Governmental Units	63,667	-	-
Deferred Revenue	103,982	-	151,515
Property Taxes Levied for Subsequent Year's Expenditures	4,980,738	-	7,072,607
Aid Anticipation Certificates Payable	3,200,000	-	-
Severance Payable	-	-	-
Total Liabilities	10,806,672	742,202	7,224,122
Fund Balances:			
Reserved	1,057,370	3,997,695	-
Unreserved:			
Major Funds	6,438,900	1,096,595	1,286,042
Nonmajor Special Revenue Funds	-	-	-
Total Fund Balances	7,496,270	5,094,290	1,286,042
Total Liabilities and Fund Balances	\$ 18,302,942	\$ 5,836,492	\$ 8,510,164

The Notes to the Financial Statements are an integral part of this statement.

Other Nonmajor Funds	Total Governmental Funds
\$ 654,387	\$ 19,488,063
269,253	7,440,417
10,098	265,595
-	244,083
-	92,889
47,971	4,440,705
-	996,727
64,920	155,259
210	318,084
63,295	176,042
141,868	141,868
<u>\$ 1,110,134</u>	<u>\$ 33,759,732</u>

PRELIMINARY

\$ 83,461	\$ 1,993,812
87,277	815,225
-	123,350
-	438,838
-	63,667
63,161	318,658
469,514	12,522,859
-	3,200,000
16,344	16,344
<u>719,757</u>	<u>19,492,753</u>
260,495	5,315,560
-	8,821,537
129,882	129,882
<u>390,377</u>	<u>14,266,979</u>
<u>\$ 1,110,134</u>	<u>\$ 33,759,732</u>

PRELIMINARY
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**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2008**

Total Fund Balances - Governmental Funds \$ 14,266,979

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	107,046,083
Less Accumulated Depreciation	(28,760,027)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(68,820,000)
Net Discount (Premium) on Bonds Payable	58,897
Capital Lease Payable	(1,123,434)
Compensated Absences Payable	(120,030)
Severance Payable	(419,706)

Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

265,595

Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.

(1,269,726)

Total Net Assets - Governmental Activities \$ 21,124,631

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2008

	General	Building Construction	Debt Service
REVENUES:			
Local Property Taxes	\$ 5,044,603	\$ -	\$ 7,114,797
Other Local and County Revenues	2,049,547	408,515	118,138
Revenue from State Sources	41,291,513	-	442,826
Revenue from Federal Sources	1,561,688	-	-
Sales and Other Conversion of Assets	113,277	105,000	-
Total Revenues	50,060,628	513,515	7,675,761
EXPENDITURES:			
Current:			
Administration	1,528,094	-	-
District Support Services	1,065,150	-	-
Elementary and Secondary Regular Instruction	24,878,954	-	-
Vocational Education Instruction	1,242,687	-	-
Special Education Instruction	8,357,319	-	-
Instructional Support Services	2,804,769	-	-
Pupil Support Services	3,354,511	-	-
Sites and Buildings	4,147,059	-	-
Fiscal and Other Fixed Cost Programs	317,804	-	-
Food Service	-	-	-
Community Education and Services	-	-	-
Capital Outlay	2,099,458	4,802,282	-
Debt Service:			
Principal	-	-	4,010,000
Interest and Fiscal Charges	-	-	3,212,188
Total Expenditures	49,795,805	4,802,282	7,222,188
Excess of Revenues Over (Under) Expenditures	264,823	(4,288,767)	453,573
FUND BALANCES:			
Beginning of Year	7,231,447	9,383,057	832,469
End of Year	\$ 7,496,270	\$ 5,094,290	\$ 1,286,042

The Notes to the Financial Statements are an integral part of this statement.

Other Nonmajor Funds	Total Governmental Funds
\$ 448,695	\$ 12,608,095
1,943,196	4,519,396
520,604	42,254,943
703,579	2,265,267
1,724,180	1,942,457
<u>5,340,254</u>	<u>63,590,158</u>

PRELIMINARY

-	24,878,954
-	1,242,687
-	8,357,319
-	2,804,769
-	3,354,511
-	4,147,059
-	317,804
2,689,829	2,689,829
2,659,937	2,659,937
117,762	7,019,502
-	4,010,000
-	3,212,188
<u>5,467,528</u>	<u>67,287,803</u>
(127,274)	(3,697,645)
<u>517,651</u>	<u>17,964,624</u>
<u>\$ 390,377</u>	<u>\$ 14,266,979</u>

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ (3,697,645)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However,
in the Statement of Activities, the cost of those assets is allocated over the
estimated useful lives as depreciation expense.

Capital Outlays	5,460,272
Depreciation Expense	(3,188,862)
Loss on Disposal	(3,584)

Compensated absences are recognized as paid in the governmental funds but recognized
as the expense is incurred in the Statement of Activities. 187,937

PRELIMINARY

Principal payments on long-term debt and leases are recognized as expenditures in the
governmental funds but have no effect in the net assets in the Statement of Activities. 4,159,177

Interest on long-term debt in the Statement of Activities differs from the amount
reported in the governmental funds because interest is recognized as an
expenditure in the funds when it is due and thus requires use of current
financial resources. In the Statement of Activities, however, interest expense is
recognized as the interest accrues, regardless of when it is due. 61,150

Governmental funds report the effect of bond discounts and premiums when
the debt is first issued, whereas these amounts are deferred and amortized
in the Statement of Activities. (5,026)

Delinquent property taxes receivable will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds. 82,124

Change in Net Assets - Governmental Activities \$ 3,055,543

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Local Property Taxes	\$ 4,408,935	\$ 4,400,735	\$ 5,044,603	\$ 643,868
Other Local and County Revenues	1,031,800	1,615,900	2,049,547	433,647
Revenue from State Sources	41,125,075	41,262,107	41,291,513	29,406
Revenue from Federal Sources	1,390,000	1,440,500	1,561,688	121,188
Sales and Other Conversion of Assets	47,500	50,500	113,277	62,777
Total Revenues	<u>48,003,310</u>	<u>48,769,742</u>	<u>50,060,628</u>	<u>1,290,886</u>
EXPENDITURES:				
Current:				
Administration	1,539,800	1,540,050	1,528,094	(11,956)
District Support Services	1,108,660	1,078,800	1,065,150	(13,650)
Elementary and Secondary Regular Instruction	24,506,700	25,289,263	24,878,954	(410,309)
Vocational Education Instruction	1,107,419	1,227,609	1,242,687	15,078
Special Education Instruction	7,639,921	7,741,696	8,357,319	615,623
Instructional Support Services	2,360,464	2,330,068	2,804,769	474,701
Pupil Support Services	3,135,063	3,215,213	3,354,511	139,298
Sites and Buildings	4,671,753	4,694,628	4,147,059	(547,569)
Fiscal and Other Fixed Cost Programs	250,000	250,000	317,804	67,804
Capital Outlay	2,505,205	2,282,105	2,099,458	(182,647)
Total Expenditures	<u>48,819,985</u>	<u>49,649,432</u>	<u>49,795,805</u>	<u>146,373</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (816,675)</u>	<u>\$ (879,690)</u>	264,823	<u>\$ 1,144,513</u>
FUND BALANCE:				
Beginning of Year			<u>7,231,447</u>	
End of Year			<u>\$ 7,496,270</u>	

PRELIMINARY
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INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

Some student activity accounts of the District are under School Board control; therefore, these student activities are included in the General Fund. There are other student activity accounts which are not under School Board control and separate financial statements have been issued for these activities.

A copy of the financial statements of the student activity accounts may be obtained by writing in care of Independent School District No. 877, Buffalo-Hanover-Montrose Schools, 214 First Avenue Northeast, Buffalo, Minnesota 55313.

B. Basic Financial Statement Information

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

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statement Information (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function.

Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide 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. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and U.S. generally accepted accounting principles. *Minnesota Statutes* include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is incurred. Other revenue is considered available if collected within one year.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized upon maturity.

Description of Funds:

Major Funds:

General Fund – This Fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety, and disabled accessibility projects.

Building Construction Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2008 were comprised of shares in the Minnesota School District Liquid Asset Fund (MSDLAF), money market funds, certificates of deposit, commercial paper and government securities. The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The District had a formal deposit and investment policy in place as of June 30, 2008 to address the following risks:

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes 118.03* for an amount exceeding Federal Deposit Insurance Corporation (FDIC) or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance.

Interest Rate Risk: Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes 118A.01 through 118A.06*. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints.

Concentration of Credit Risk: The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states investments shall be held by institutions designated by the Board of Education.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are deferred and included in the liability section of the fund financial statements as deferred revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Years' Expenditures

Property taxes levied for subsequent years' expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2007, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2008. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

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

I. Property Taxes

The District is located in the Counties of Wright and Hennepin.

Property tax levies are certified to the County Auditors 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 counties spread all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remit 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.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$ 5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Assets.

Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment. Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave is recorded as compensated absences in the Statement of Net Assets.

M. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits. Accounting policies of severance and health benefits are described below.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on year of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary. Benefits are not considered vested until actual turnover occurs.

During fiscal year 2008, the District's expenditures for severance totaled \$ 339,902.

Under the terms of certain collectively bargained employment contracts, the District is required to pay the medical and dental insurance premiums for retired teachers and administrators until they reach specific age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract. All premiums are funded on a pay-as-you-go basis.

During the year ended June 30, 2008, total expenditures for health insurance premiums on behalf of 61 retired employees were \$ 410,922. This amount is partially offset by payments from retired employees.

N. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees 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 during the fiscal year ending June 30, 2008.

O. Fund Equity

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

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Q. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director of Finance and Operation submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Budget revisions are presented and approved by the School Board in the spring.

Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at a decentralized level.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceed appropriations in the following Funds for the year ending June 30, 2008.

Fund	Appropriations	Expenditures	Over
General	\$ 49,649,432	\$ 49,795,805	\$ 146,373
Debt Service	7,220,735	7,222,188	1,453
Building Construction	4,080,000	4,802,282	722,282
Food Service	2,402,895	2,770,468	367,573
Community Service	2,472,130	2,697,060	224,930

NOTE 3 – DEPOSITS AND INVESTMENTS

PRELIMINARY

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: As of June 30, 2008, the District's bank balance of \$ 1,206,814 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits had a book balance as follows:

Checking	\$ 318,942
Petty Cash	<u>6,000</u>
Total Deposits	<u>\$ 324,942</u>

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of June 30, 2008, the District had the following pooled investments:

Type	Total	0-6 Months	7-12 Months	Ratings
Commercial Paper	\$ 4,614,888	\$ 2,593,945	\$ 2,020,943	AA-, AA+
Governmental Agencies	1,492,947	1,492,947	-	AAA
Certificates of Deposit	6,159,080	2,228,580	3,930,500	N/A
Total Investments with Maturity	12,266,915	\$ 6,315,472	\$ 5,951,443	
Money Markets	2,778,526			N/A
MSDLAF	4,117,680			AAAm
Total Investments	\$ 19,163,121			

Concentration of Credit Risk: As of June 30, 2008, investments in FHLB (7.8%), American Express Credit Commercial Paper (5.3%) and CitiGroup Funding Commercial Paper (18.7%) exceeded 5% of the District's total investments.

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 324,942
Investments	<u>19,163,121</u>
Total Deposits and Investments	<u>\$ 19,488,063</u>

Deposits and investments at June 30, 2008 are presented as follows:

Statement of Net Assets:	
Cash and Investments	<u>\$ 19,488,063</u>

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 3,474,158	\$ 830,000	\$ -	\$ 4,304,158
Construction in Progress	<u>1,227,598</u>	<u>966,514</u>	<u>1,227,598</u>	<u>966,514</u>
Total Capital Assets not being Depreciated	4,701,756	1,796,514	1,227,598	5,270,672
Capital Assets being Depreciated:				
Land Improvements	2,506,905	31,920	-	2,538,825
Buildings	90,580,799	4,285,167	-	94,865,966
Equipment and Vehicles	<u>3,866,660</u>	<u>574,269</u>	<u>70,309</u>	<u>4,370,620</u>
Total Capital Assets being Depreciated	96,954,364	4,891,356	70,309	101,775,411
Less Accumulated Depreciation for:				
Land Improvements	1,352,731	126,570	-	1,479,301
Buildings	22,333,530	2,706,855	-	25,040,385
Equipment and Vehicles	<u>1,951,629</u>	<u>355,437</u>	<u>66,725</u>	<u>2,240,341</u>
Total Accumulated Depreciation	<u>25,637,890</u>	<u>3,188,862</u>	<u>66,725</u>	<u>28,760,027</u>
Total Capital Assets being Depreciated, Net	<u>71,316,474</u>	<u>1,702,494</u>	<u>3,584</u>	<u>73,015,384</u>
Governmental Activities Capital Assets, Net	<u>\$ 76,018,230</u>	<u>\$ 3,499,008</u>	<u>\$ 1,231,182</u>	<u>\$ 78,286,056</u>

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense of \$ 3,188,862 for the year ended June 30, 2008 was charged to the following governmental functions:

Administration	\$ 591
District Support Services	20,628
Elementary and Secondary Regular Instruction	3,025,722
Special Education Instruction	17,241
Instructional Support Services	20,908
Pupil Support	525
Sites and Buildings	46,869
Food Service	46,785
Community Service	9,593

Total Depreciation Expense	\$ 3,188,862
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NOTE 5 – SHORT-TERM DEBT

A. Components of Short-Term Liabilities

On July 18, 2007, the District received proceeds from a G.O. Aid Anticipation Certificate of Indebtedness. The details are as follows:

	Issue Date	Maturity Date	Interest Rate	Certificate Amount
G.O. Aid Anticipation Certificate of Indebtedness, Series 2007A	07/18/07	08/18/08	4.125%	\$ 3,200,000

Repayment of the entire amount will be made with proceeds from general education aids received in fiscal year 2009.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One year</u>
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
1999 School Building						
Refunding Bonds	02/01/99	4.00%-5.00%	\$ 30,175,000	02/01/22	\$ 22,230,000	\$ 1,425,000
2003B School Building Bonds	11/01/03	2.00%-4.60%	42,400,000	02/01/24	39,760,000	1,875,000
2005A Alternative						
Facilities Bonds	12/01/05	3.75%-3.80%	9,100,000	02/01/18	6,830,000	495,000
Total G.O. Bonds					<u>68,820,000</u>	<u>3,795,000</u>
Net Bond (Discount) Premium					<u>(58,897)</u>	<u>(5,027)</u>
Net Bonds Payable					68,761,103	3,789,973
Capital Leases Payable					1,123,434	155,739
Severance Payable					419,706	60,208
Compensated Absences Payable					<u>120,030</u>	<u>120,030</u>
Total all Long-Term Liabilities					<u>\$ 70,424,273</u>	<u>\$ 4,125,950</u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 6 – LONG-TERM DEBT (Continued)

B. Minimum Debt Payments for Bonds, Loans and Capital Leases

Minimum annual principal and interest payments required to retire bond and capital lease liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2009	\$ 3,795,000	\$ 3,061,285	\$ 6,856,285
2010	4,260,000	2,925,198	7,185,198
2011	3,860,000	2,750,032	6,610,032
2012	4,200,000	2,581,802	6,781,802
2013	4,360,000	2,396,980	6,756,980
2014-2018	22,885,000	8,978,410	31,863,410
2019-2023	20,720,000	4,074,175	24,794,175
2024	4,740,000	218,040	4,958,040
Total	<u>\$ 68,820,000</u>	<u>\$ 26,985,922</u>	<u>\$ 95,805,922</u>

C. Capital Lease Obligations

In January 2003, the District entered into a lease purchase agreement for the construction of a warehouse/storage building. The total financed was \$ 115,000 with an interest rate of 4.23% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through January 15, 2011.

In March 2004, the District entered into a lease purchase agreement for the construction of a warehouse/storage building. The total financed was \$ 122,850 with an interest rate of 3.89% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through January 15, 2012.

In October 2006, the District entered into a lease purchase agreement for the installation of a new district-wide telephone system. The total financed was \$ 445,000 with an interest rate of 4.26% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 17, 2011.

In October 2006, the District entered into a lease purchase agreement for the construction of an addition to the Phoenix Learning Center. The total financed was \$ 750,000 with an interest rate of 4.79% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 15, 2021.

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 – LONG-TERM DEBT (Continued)

C. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,		
2009		\$ 205,260
2010		205,243
2011		205,230
2012		129,485
2013		70,657
2014-2018		353,290
2019-2022		247,302
Total Minimum Lease Payments		<u>1,416,467</u>
Less Amount Representing Interest		<u>293,033</u>
	Present Value of Minimum Lease Payments	<u><u>\$ 1,123,434</u></u>

The carrying value and related accumulated depreciation at June 30, 2008 for the assets purchased was as follows:

Carrying Value	\$ 1,352,373
Less Accumulated Depreciation	<u>(164,634)</u>
Assets Net of Depreciation	<u><u>\$ 1,187,739</u></u>

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 6 – LONG-TERM DEBT (Continued)

D. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-Term Liabilities:				
G.O. Bonds	\$ 72,830,000	\$ -	\$ 4,010,000	\$ 68,820,000
Net (Discount) Premium	(63,923)	-	(5,026)	(58,897)
Capital Leases Payable	1,272,611	-	149,177	1,123,434
Compensated Absences Payable	<u>307,967</u>	<u>495,850</u>	<u>683,787</u>	<u>120,030</u>
Total Long-Term Liabilities	<u>\$ 74,346,655</u>	<u>\$ 495,850</u>	<u>\$ 4,837,938</u>	<u>\$ 70,004,567</u>

E. Prior Period Adjustment

The change in the long term liability for severance is not shown above due to the prior period adjustment of \$ 3,715,418. In the prior year, liabilities that were considered other post employment benefits (OPEB) were included within the severance payable balance. These OPEB liabilities should not have been included as long term liabilities in the Statement of Net Assets. Only the amount of severance related to sick pay is properly included in the severance payable balance of \$ 419,706 at June 30, 2008.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 7 – RESERVED FUND BALANCES/RESTRICTED NET ASSETS

Certain portions of fund balance are reserved based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

Fund Equity

Fund equity balances are classified below to reflect the limitations and restrictions of the respective funds.

A. Reserved Fund Balance

	General Fund	Building Construction	Other Nonmajor Funds	Total
Reserved for:				
Severance Pay	\$ 669,869	\$ -	\$ -	\$ 669,869
Health and Safety	(25,350)	-	-	(25,350)
Operating Capital	412,851	-	-	412,851
Alternative Facilities	-	3,997,695	-	3,997,695
Community Education	-	-	136,853	136,853
Adult Basic Education	-	-	21,413	21,413
Early Childhood and Family Education	-	-	81,676	81,676
School Readiness	-	-	20,553	20,553
Total Reserved Fund Balance	<u>\$1,057,370</u>	<u>\$3,997,695</u>	<u>\$260,495</u>	<u>\$5,315,560</u>

Reserved for Severance Pay – This balance is for payments for insurance for accumulated sick leave as limited by statute, early retirement incentive payments and continuing health insurance payments to retired employees.

Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. Under *Minnesota Statutes*, a deficit in this reserve generates specific future levy authority.

Reserved for Operating Capital – Beginning in fiscal year 1997, this balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Reserved for Alternative Facilities Program – This balance represents the resources available for approved expenditures based on the 10-year plan for capital projects for districts qualifying under *Minnesota Statutes* 123B.59, subd. 1a.

INDEPENDENT SCHOOL DISTRICT NO. 877
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 – RESERVED FUND BALANCES/RESTRICTED NET ASSETS (Continued)

Fund Equity (Continued)

A. Reserved Fund Balance (Continued)

Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Net assets restricted for other purposes are comprised of the total positive General Fund reserved fund balances plus the net assets in the Food Service and Community Service Funds.

B. Unreserved – Designated Fund Balance

Unreserved fund balance in the General Fund includes \$ 1,430,324 set aside for severance insurance premiums, \$ 227,390 for dental insurance, \$ 269,847 for carryover and \$ 278,113 for student activities under School Board control.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the District are required by state law to belong to 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 follow.

Teachers' Retirement Association

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the 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 Basic Plan members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Teachers’ Retirement Association (Continued)

A. Plan Description (Continued)

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 Statutes* 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

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

Tier I	PRELIMINARY	
Tier I	Step Rate Formula	Percentage
Basic	First 10 years if service years are prior to July 1, 2006	2.2% per year
	First 10 years if service years are July 1, 2006 or after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- Normal retirement at age 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).

INDEPENDENT SCHOOL DISTRICT NO. 877
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Tier II:

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% 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 4.0% to 5.5% per year.

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. That report may be accessed at the TRA web site www.tra.state.mn.us, by writing TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-1855 or by calling (651) 296-6449 or (800) 657-3853.

B. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the state legislature. As of June 30, 2006, Coordinated and Basic Plan members were required to contribute 5.5% and 9.0%, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates were 5.0% for Coordinated Plan members and 9.0% for Basic Plan members. Effective July 1, 2007, the employer contribution rates for Coordinated Plan members rose to 5.5% and 9.5% for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during the fiscal year ended June 30, 2008 was approximately \$ 3.532 billion.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Teachers' Retirement Association (Continued)

B. Funding Policy (Continued)

The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$ 1,238,959, \$ 1,094,430 and \$ 1,036,200, respectively, equal to the required contributions for each year as set by state statute.

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees (nonteacher) of the District are covered by defined benefit plans administered by the PERA. PERA administers the Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

PERF members belong to either the Coordinated 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.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all 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.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.0%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.5% effective January 1, 2008. The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$ 513,124, \$ 466,221 and \$ 361,110, respectively, equal to the contractually required contributions for each year as set by statute.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 9 – RETIREMENT PLANS

A. Post Retirement Health Care Savings Plan

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled \$ 81,474 for the fiscal year.

B. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District does not make any contributions to the Plan. Contributions are invested in tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$ 770,405.

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" under Section 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 groups allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. 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.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the financial statements in the General Fund.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008**

NOTE 10 – FLEXIBLE BENEFIT PLAN (Continued)

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 general creditors of the District in an amount equal to eligible health care and dependent 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 – COMMITMENTS

A. Construction Contracts

At June 30, 2008, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2008	Commitment
Ventilation	\$ 3,798,000	\$ 718,900	\$ 3,084,100

B. Joint Powers Agreement

The District entered in to a joint powers agreement in February 1998 between and among eight other independent school districts and Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion o the lease payment based on the formula set out in the Joint Power Agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

C. Rental Agreement

The District entered into a rental agreement with the City of Buffalo in fiscal year 2001 for use of the Civic Center by the District.

This agreement is for a period of fifteen years commencing September 1, 2000. The agreement calls for a minimum rental of 335 hours of ice time per year at the initial rate of \$ 135 per hour and an annual payment of \$ 55,000 for use of classrooms, team and locker rooms and additional ice time during the day when school is in session.

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are \$ 100,225. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

PRELIMINARY

SUPPLEMENTARY INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL DETAIL - GENERAL FUND
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Local Property Taxes	\$ 4,408,935	\$ 4,400,735	\$ 5,044,603	\$ 643,868
Other Local and County Revenues	1,031,800	1,615,900	2,049,547	433,647
Revenue from State Sources	41,125,075	41,262,107	41,291,513	29,406
Revenue from Federal Sources	1,390,000	1,440,500	1,561,688	121,188
Sales and Other Conversion of Assets	47,500	50,500	113,277	62,777
Total Revenues	48,003,310	48,769,742	50,060,628	1,290,886
EXPENDITURES:				
Administration:				
Salaries	1,116,400	1,092,500	1,068,201	(24,299)
Employee Benefits	354,350	360,400	387,819	27,419
Purchased Services	34,500	34,800	19,743	(15,057)
Supplies and Materials	9,700	11,800	17,475	5,675
Capital Expenditures	9,000	9,000	267	(8,733)
Other Expenditures	24,850	40,550	34,856	(5,694)
Total Administration	1,548,800	1,549,050	1,528,361	(20,689)
District Support Services:				
Salaries	609,500	605,000	597,277	(7,723)
Employee Benefits	151,860	179,500	188,011	8,511
Purchased Services	294,500	246,500	234,444	(12,056)
Supplies and Materials	25,500	25,500	21,993	(3,507)
Capital Expenditures	32,748	32,748	27,794	(4,954)
Other Expenditures	22,300	22,300	23,425	1,125
Total District Support Services	1,136,408	1,111,548	1,092,944	(18,604)
Elementary and Secondary Regular Instruction:				
Salaries	17,437,650	17,191,587	16,649,398	(542,189)
Employee Benefits	4,864,250	5,249,191	5,545,706	296,515
Purchased Services	1,164,311	1,193,596	1,126,971	(66,625)
Supplies and Materials	953,544	1,564,894	1,468,722	(96,172)
Capital Expenditures	266,888	271,313	355,490	84,177
Other Expenditures	86,945	89,995	88,157	(1,838)
Total Elementary and Secondary Regular Instruction	24,773,588	25,560,576	25,234,444	(326,132)

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL DETAIL - GENERAL FUND**
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES:				
Vocational Education Instruction:				
Salaries	\$ 530,300	\$ 538,220	\$ 519,527	\$ (18,693)
Employee Benefits	132,280	144,550	151,604	7,054
Purchased Services	408,669	508,669	531,896	23,227
Supplies and Materials	35,170	35,170	37,364	2,194
Capital Expenditures	14,560	14,560	10,212	(4,348)
Other Expenditures	1,000	1,000	2,296	1,296
Total Vocational Education Instruction	1,121,979	1,242,169	1,252,899	10,730
Special Education Instruction:				
Salaries	5,686,506	5,673,006	5,569,256	(103,750)
Employee Benefits	1,409,675	1,524,950	1,590,285	65,335
Purchased Services	446,575	446,575	1,034,362	587,787
Supplies and Materials	96,565	96,565	163,416	66,851
Capital Expenditures	70,214	70,214	51,942	(18,272)
Other Expenditures	600	600	-	(600)
Total Special Education Instruction	7,710,135	7,811,910	8,409,261	597,351
Instructional Support Services:				
Salaries	1,468,000	1,512,550	1,904,138	391,588
Employee Benefits	329,925	359,575	395,617	36,042
Purchased Services	58,840	58,040	75,451	17,411
Supplies and Materials	311,029	331,633	358,088	26,455
Capital Expenditures	504,119	496,594	490,946	(5,648)
Other Expenditures	192,670	68,270	71,475	3,205
Total Instructional Support Services	2,864,583	2,826,662	3,295,715	469,053
Pupil Support Services:				
Salaries	769,100	720,100	707,509	(12,591)
Employee Benefits	197,425	199,575	199,379	(196)
Purchased Services	1,984,540	1,992,740	2,148,837	156,097
Supplies and Materials	182,848	301,648	297,731	(3,917)
Capital Expenditures	5,200	5,200	5,697	497
Other Expenditures	1,150	1,150	1,055	(95)
Total Pupil Support Services	3,140,263	3,220,413	3,360,208	139,795

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL DETAIL - GENERAL FUND
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES:				
Sites and Buildings:				
Salaries	\$ 1,950,100	\$ 1,942,500	\$ 1,749,115	\$ (193,385)
Employee Benefits	458,025	488,500	473,342	(15,158)
Purchased Services	1,307,425	1,307,425	1,216,450	(90,975)
Supplies and Materials	915,895	915,895	642,888	(273,007)
Capital Expenditures	1,602,476	1,382,476	1,157,110	(225,366)
Other Expenditures	40,308	40,308	65,264	24,956
Total Sites and Buildings	<u>6,274,229</u>	<u>6,077,104</u>	<u>5,304,169</u>	<u>(772,935)</u>
Fiscal and Other Fixed Cost Programs:				
Purchased Services	235,000	235,000	203,463	(31,537)
Other Expenditures	15,000	15,000	14,341	99,341
Total Fiscal and Other Fixed Cost Programs	<u>250,000</u>	<u>250,000</u>	<u>317,804</u>	<u>67,804</u>
Total Expenditures	<u>48,819,985</u>	<u>49,649,432</u>	<u>49,795,805</u>	<u>146,373</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (816,675)</u>	<u>\$ (879,690)</u>	264,823	<u>\$ 1,144,513</u>
FUND BALANCES:				
Beginning of Year			<u>7,231,447</u>	
End of Year			<u>\$ 7,496,270</u>	

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008**

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
ASSETS:			
Cash and Investments	\$ 182,376	\$ 472,011	\$ 654,387
Current Property Taxes Receivable	-	269,253	269,253
Delinquent Property Taxes Receivable	-	10,098	10,098
Due from Department of Education	-	47,971	47,971
Due from Other Minnesota School Districts	-	64,920	64,920
Due from Other Governmental Units	-	210	210
Inventory	63,295	-	63,295
Total Assets	\$ 245,671	\$ 864,463	\$ 1,110,134
PRELIMINARY			
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 53,970	\$ 29,491	\$ 83,461
Salaries and Benefits Payable	4,326	82,951	87,277
Deferred Revenue	53,063	10,098	63,161
Property Taxes Levied for Subsequent Year's Expenditures	-	469,514	469,514
Severance Payable	16,344	-	16,344
Total Liabilities	127,703	592,054	719,757
Fund Balances:			
Reserved:			
Community Education Programs	-	136,853	136,853
Adult Basic Education	-	21,413	21,413
Early Childhood and Family Education Programs	-	81,676	81,676
School Readiness	-	20,553	20,553
Unreserved - Undesignated	117,968	11,914	129,882
Total Fund Balances	117,968	272,409	390,377
Total Liabilities and Fund Balances	\$ 245,671	\$ 864,463	\$ 1,110,134

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008**

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
REVENUES:			
Local Property Taxes	\$ -	\$ 448,695	\$ 448,695
Other Local and County Revenues	16,922	1,926,274	1,943,196
Revenue from State Sources	108,556	412,048	520,604
Revenue from Federal Sources	703,579	-	703,579
Sales and Other Conversion of Assets	1,724,180	-	1,724,180
Total Revenues	2,553,237	2,787,017	5,340,254
EXPENDITURES:			
Current:			
Food Service	2,689,829	-	2,689,829
Community Education and Services	-	2,659,937	2,659,937
Capital Outlay	80,639	37,123	117,762
Total Expenditures	2,770,468	2,697,060	5,467,528
Excess of Revenues Over (Under) Expenditures	(217,231)	89,957	(127,274)
FUND BALANCES:			
Beginning of Year	335,199	182,452	517,651
End of Year	\$ 117,968	\$ 272,409	\$ 390,377

PRELIMINARY

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE FUND
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Other Local and County Revenues	\$ 7,000	\$ 7,000	\$ 16,922	\$ 9,922
Revenue from State Sources	93,500	93,500	108,556	15,056
Revenue from Federal Sources	632,500	632,500	703,579	71,079
Sales and Other Conversion of Assets	1,688,500	1,688,500	1,724,180	35,680
Total Revenues	<u>2,421,500</u>	<u>2,421,500</u>	<u>2,553,237</u>	<u>131,737</u>
EXPENDITURES:				
Food Service:				
Salaries	886,500	886,500	1,023,108	136,608
Employee Benefits	255,145	255,145	299,622	44,477
Purchased Services	111,800	111,800	159,562	47,762
Supplies and Materials	1,069,650	1,069,650	1,199,143	129,493
Capital Expenditures	71,000	71,000	80,639	9,639
Other Expenditures	8,800	8,800	8,394	(406)
Total Expenditures	<u>2,402,895</u>	<u>2,402,895</u>	<u>2,770,468</u>	<u>367,573</u>
Net Change in Fund Balances	<u>\$ 18,605</u>	<u>\$ 18,605</u>	(217,231)	<u>\$ (235,836)</u>
FUND BALANCES:				
Beginning of Year			<u>335,199</u>	
End of Year			<u>\$ 117,968</u>	

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
 For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Local Property Taxes	\$ 481,844	\$ 481,844	\$ 448,695	\$ (33,149)
Other Local and County Revenues	1,626,910	1,626,910	1,926,274	299,364
Revenue from State Sources	380,478	380,478	412,048	31,570
Total Revenues	2,489,232	2,489,232	2,787,017	297,785
EXPENDITURES:				
Community Education and Services:				
Salaries	1,703,180	1,687,430	1,782,311	94,881
Employee Benefits	350,000	350,000	406,158	56,158
Purchased Services	232,450	232,450	287,216	54,766
Supplies and Materials	153,000	153,000	173,443	20,443
Capital Expenditures	39,700	39,700	37,123	(2,577)
Other Expenditures	9,550	9,550	10,809	1,259
Total Expenditures	2,487,880	2,472,130	2,697,060	224,930
Excess of Revenues Over (Under) Expenditures	1,352	17,102	89,957	72,855
OTHER FINANCING SOURCES (USES):				
Transfers In	650	650	-	(650)
Net Change in Fund Balances	\$ 2,002	\$ 17,752	89,957	\$ 72,205
FUND BALANCES:				
Beginning of Year			182,452	
End of Year			\$ 272,409	

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
<i>Through Minnesota Department of Education:</i>			
USDOA	10.550	Commodities Programs	\$ 94,854
USDOA	10.553	School Breakfast (Cluster)	64,501
USDOA	10.555	Type A Lunch (Cluster)	522,529
USDOA	10.556	Special Milk (Cluster)	810
USDOED	84.010	Title I, Part A	366,665
USDOED	84.027	Special Education (Cluster)	972,201
USDOED	84.173	Handicapped Early Education (Cluster)	23,386
USDOED	84.186	Title IV, Part A - Safe Drug-Free Schools	15,677
USDOED	84.298	Title V, Part A - Innovative Programs	8,472
USDOED	84.318	Title II, Part D - Education Technology	355
USDOED	84.365	Title III, Part A - Language Enhancement	9,398
USDOED	84.367	Title II, Part A - Improving Teacher Quality	129,203
<i>Through University of Minnesota:</i>			
USDOED	93.279	Early Risers	<u>18,000</u>
Total Federal Expenditures			<u><u>\$ 2,226,051</u></u>

PRELIMINARY

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**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose Minnesota**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2008**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *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 basic financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

PRELIMINARY

PRELIMINARY
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PRELIMINARY

OTHER INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

DEFERRED TAX LEVIES
(Unaudited)

<u>Calendar Year Levied</u>	<u>Collected</u>	<u>School Building Refunding Bonds of 1999</u>	<u>School Building Bonds of 2003</u>	<u>Alternative Facilities Bonds of 2005</u>	<u>Total</u>
2008	2009	\$ 2,626,600	\$ 4,133,600	\$ 785,374	\$ 7,545,574
2009	2010	2,613,600	3,441,000	886,042	6,940,642
2010	2011	2,598,200	3,619,300	903,433	7,120,933
2011	2012	2,604,800	3,591,900	898,249	7,094,949
2012	2013	2,600,600	3,577,300	902,777	7,080,677
2013	2014	2,198,000	3,963,400	900,874	7,062,274
2014	2015	2,213,600	3,928,800	903,236	7,045,636
2015	2016	2,213,800	3,016,800	904,418	6,135,018
2016	2017	2,210,100	3,024,200	899,168	6,133,468
2017	2018	2,202,700	3,018,400	-	5,221,100
2018	2019	2,187,700	3,024,100	-	5,211,800
2019	2020	2,189,800	3,014,400	-	5,204,200
2020	2021	722,200	4,475,400	-	5,197,600
2021	2022	-	5,199,500	-	5,199,500
2022	2023	-	5,206,000	-	5,206,000
Total		\$ 29,181,700	\$ 56,234,100	\$ 7,983,571	\$ 93,399,371

PRELIMINARY

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**PROPERTY TAX LEVIES, RATES AND VALUATIONS
LAST 10 FISCAL YEARS
June 30, 2008
(Unaudited)**

<u>Year Collectible</u>	<u>Net Tax Capacity Valuations</u>	<u>Tax Capacity Rates</u>	<u>General Fund</u>	<u>Community Service Fund</u>	<u>Debt Service Fund</u>	<u>Total All Funds</u>
1999	\$ 13,913,827	0.65641	\$ 6,801,410	\$ 218,471	\$ 2,619,126	\$ 9,639,007
2000	15,036,503	0.63836	7,325,840	236,147	2,941,527	10,503,514
2001	16,557,636	0.57813	7,837,875	272,134	3,142,106	11,252,115
2002	14,452,216	0.32049	2,368,295	322,050	3,412,290	6,102,635
2003	16,598,813	0.36712	4,463,834	355,316	3,124,260	7,943,410
2004	19,241,942	0.40045	3,999,310	433,864	5,133,398	9,566,572
2005	21,885,088	0.33232	4,786,185	394,396	4,189,234	9,369,815
2006	27,038,385	0.27768	2,908,810	446,569	6,847,702	10,203,081
2007	31,211,062	0.31663	5,024,291	469,777	7,578,738	13,072,806
2008	33,777,383	0.28308	5,548,494	468,565	7,072,607	13,089,666

Source: School Tax Report

PRELIMINARY

PRELIMINARY
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

October 13, 2008

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the Schedule of Findings and Questioned Costs in Accordance with *OMB Circular A-133* as Audit Finding 08-01 to be a material weakness in internal control over financial reporting.



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

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

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*.

PRELIMINARY
We noted certain other matters that we reported to management of the District in a separate letter dated October 13, 2008.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with *OMB Circular A-133*. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Education, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

October 13, 2008

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

COMPLIANCE

We have audited the compliance of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 in Accordance with *OMB Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grant agreements 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 U.S. generally accepted auditing standards; 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, Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.



INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

~~A material weakness is a significant deficiency, or combinations of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.~~

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

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with *OMB Circular A-133*. We did not audit the District's response and, accordingly, we express no opinion on it.

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

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2008**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 08-01
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of Major Programs

CFDA No.:	84.010
Name of Federal Program or Cluster:	Title I
CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 08-01

Criteria or Specific Requirement:

An internal control system is required that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Condition:

The District's independent auditor proposed an adjustment that was material to the financial statements.

Questioned Costs:

None

Context:

This finding is isolated to external financial reporting related to compensated absences and other post-employment benefits.

Effect:

The required adjustment indicates a deficiency in control that could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

Other post employment benefit liabilities were included as severance payable in the prior year financial statements.

Recommendation:

Continue to review the accounting system, including opportunities for additional levels of review of externally reported financial data.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will review the accounting system and implement additional levels of review where appropriate.

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH *OMB CIRCULAR A-133*
June 30, 2008**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Audit Finding 08-01 (Continued)

Management's Response: (Continued)

3. Official Responsible for Ensuring CAP

Chuck Klaassen, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2009.

5. Plan to Monitor Completion of CAP

The School Board and Business Office will be monitoring this CAP. The District will continue to evaluate the internal control process on an ongoing basis to ensure the financial reporting is in accordance with U.S. generally accepted accounting principles.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None



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REPORT ON LEGAL COMPLIANCE

October 13, 2008

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2008.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, the District complied with the material terms and conditions of applicable legal provisions except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance.

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

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**SCHEDULE OF FINDINGS AND CORRECTIVE
ACTION PLANS ON LEGAL COMPLIANCE
June 30, 2008**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Minnesota Statutes 118A.03 states collateral assignment for deposits must be in writing and the assignment must provide that, upon default, the depository shall release the collateral pledged to the government entity on demand.

The District's collateral assignment with the depository states the collateral pledged will be released after the depository has three days to cure the event of default.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will review the pledge agreement with the bank to ensure it complies with *Minnesota Statutes* 118A.03.

3. Official Responsible for Ensuring CAP

Chuck Klaassen, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2009.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this CAP. An update will be given at the January 2009 School Board Meeting when the cash and investment policies are reviewed.

PRELIMINARY

**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2008**

01 GENERAL FUND

Total Revenue	\$ 50,060,628
Total Expenditures	49,795,805
<i>Reserved:</i>	
403 Staff Development	-
405 Deferred Maintenance	-
406 Health and Safety	(25,350)
407 Capital Projects Levy	-
408 Cooperative Revenue	-
411 Severance Pay	669,869
414 Operating Debt	-
416 Levy Reduction	-
419 Encumbrances	-
423 Certain Teacher Programs	-
424 Operating Capital	412,851
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 Technical Programs	-
446 First Grade Preparedness	-
449 Safe School Crime	-
450 Rekindergarten	-
451 QZAB Payments	-
<i>Unreserved:</i>	
418 Severance-Insurance Premium	-
422 Unreserved/Undesignated	6,438,900

02 FOOD SERVICE FUND

Total Revenue	\$ 2,553,237
Total Expenditures	2,770,468
<i>Reserved:</i>	
411 Severance Pay	-
419 Encumbrances	-
<i>Unreserved:</i>	
418 Severance-Insurance Premium	-
422 Unreserved/Undesignated	117,968

04 COMMUNITY SERVICE FUND

Total Revenue	\$ 2,787,017
Total Expenditures	2,697,060
<i>Reserved:</i>	
411 Severance Pay	-
419 Encumbrances	-
426 \$ 25 Taconite	-
431 Community Education	136,853
432 ECFE	81,676
444 School Readiness	20,553
447 Adult Basic Education	21,413
<i>Unreserved:</i>	
422 Unreserved/Undesignated	11,914

06 BUILDING CONSTRUCTION FUND

Total Revenue	\$ 513,515
Total Expenditures	4,802,282

06 BUILDING CONSTRUCTION FUND (CONTINUED)

<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	3,997,695
419 Encumbrances	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	1,096,595

07 DEBT SERVICE FUND

Total Revenue	\$ 7,675,761
Total Expenditures	7,222,188
<i>Reserved:</i>	
425 Bond Refundings	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	1,286,042
451 QZAB Payments	-

08 TRUST FUND

Total Revenue	\$ -
Total Expenditures	-

<i>Reserved:</i>	
419 Encumbrances	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	-

09 AGENCY FUND

<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

20 INTERNAL SERVICE FUND

Total Revenue	\$ -
Total Expenditures	-

<i>Reserved:</i>	
419 Encumbrances	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	-

25 OPEB REVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	-

<i>Unreserved:</i>	
422 Unreserved/Undesignated	-

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$ -
Total Expenditures	-

<i>Unreserved:</i>	
422 Unreserved/Undesignated	-

47 OPEB DEBT SERVICE

Total Revenue	\$ -
Total Expenditures	-

<i>Reserved:</i>	
425 Bond Refundings	-
<i>Unreserved:</i>	
422 Unreserved/Undesignated	-

PRELIMINARY