

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

Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

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

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

BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2009

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dave Wilson	Chairperson	December 31, 2009
Sue Lee	Vice Chairperson	December 31, 2009
Melissa Brings	Clerk	December 31, 2011
Jeff Mattson	Acting Clerk/Treasurer	December 31, 2009
Doug Olson	Treasurer	November 3, 2009
Patti Pokorney	Director	December 31, 2011
Rolf Mohwinkel	Director	December 31, 2011
<u>Administration</u>		
James Bauck	Superintendent	
Chuck Klaassen	Director of Finance and Operations	
Tina Burkholder	Controller	



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INDEPENDENT AUDITOR'S REPORT

October 9, 2009

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, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2009, 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 9, 2009, 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 should be considered in assessing the results of our audit.



As discussed in Note 13 to the financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*.

The Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 58, are not required parts of the basic financial statements but are 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 performed 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, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying 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 also not a required part of the basic financial statements. The Supplementary Information, Schedule of Expenditures of Federal Awards 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Kern, DeWenter, Viere, Ltd.

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, 2009

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, 2009. 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 (2008-2009) and the prior year (2007-2008) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-2009 fiscal year include the following:

- The District's total combined net assets increased over 11.68% over the course of the year and were \$ 23.6 million at June 30, 2009.
- During the year, the District's expenses were \$ 63.3 million and its revenues were \$ 65.8 million.
- The General Fund reported an unreserved/undesignated fund balance this year of \$ 4.3 million.

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:

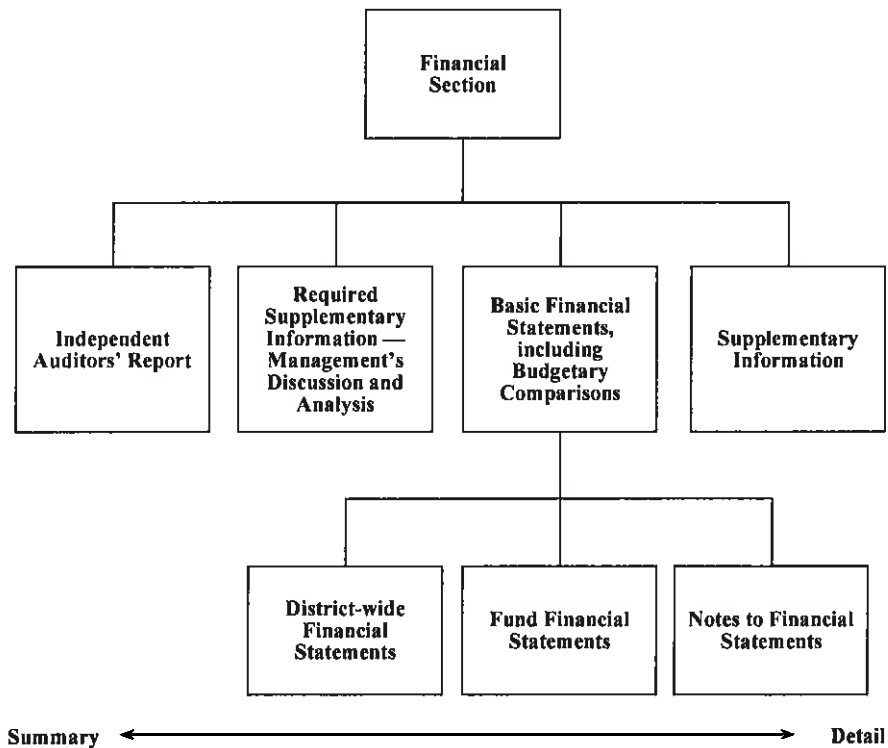
- The first two statements are the district-wide financial statements that provide both short- and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations 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, 2009**

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, 2009**

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, 2009

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.
- 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, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's consolidated net assets increased 11.68% and were \$ 23,592,140 on June 30, 2009. (See Table A-1). The District's current assets decreased 17.97% and current liabilities decreased 14.22% after paying back the \$ 3.2 million aid anticipation certificates in July 2008 and paying outstanding invoices associated with the ventilation projects from the previous year.

The restricted net assets increased mainly from the transfers into Debt Service from the remaining balance on the ventilation projects. The unrestricted net assets increased due to the change in net assets.

	Governmental Activities		Percentage Change
	2009	2008	
Current and Other Assets	\$ 27,694,688	\$ 33,759,732	-17.97%
Capital and Non-Current Assets	79,876,340	78,286,056	2.03%
Total Assets	107,571,028	112,045,788	-3.99%
Current Liabilities	21,121,337	24,622,834	-14.22%
Long-term Liabilities	62,857,551	66,298,323	-5.19%
Total Liabilities	83,978,888	90,921,157	-7.64%
Net Assets			
Invested in Capital Assets, Net of Related Debt	13,890,856	13,495,809	2.93%
Restricted	2,850,777	1,660,721	71.66%
Unrestricted	6,850,507	5,968,101	14.79%
Total Net Assets	\$ 23,592,140	\$ 21,124,631	11.68%

Change in Net Assets

The net change in assets for 2008-2009 was \$ 2,467,509 based on total revenues of \$ 65.8 million and total expenses of \$ 63.3 million. Table A-2 shows the breakdown into the various revenue and expense categories. In 2008-2009, the District experienced additional General Education Aid funding of 1.0%, received funds from the Microsoft settlement, and the Montrose farmhouse was sold. Overall, expenses were relatively stable as budget reductions were implemented. However, transportation rates increased considerably from the first year of the bus contract.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Table A-2
Change in Net Assets

	Governmental Activities		Percentage Change
	2009	2008	
Revenues			
Program Revenues			
Charges for Services	\$ 4,481,719	\$ 4,207,334	6.52%
Operating Grants and Contributions	9,317,332	8,997,393	3.56%
Capital Grants and Contributions	1,671,105	1,537,797	8.67%
General Revenues			
Property Taxes	12,789,803	12,690,219	0.78%
Unrestricted State Aid	34,630,791	33,985,020	1.90%
Investment Earnings	325,017	974,739	-66.66%
Other	1,452,167	1,279,780	13.47%
Income from Joint Venture	967,000	-	0.00%
Gain on Sale of Capital Assets	143,473	-	0.00%
Total Revenues	<u>65,778,407</u>	<u>63,672,282</u>	3.31%
Expenses			
Administration	1,626,667	1,486,662	9.42%
District Support Services	1,287,170	1,088,081	18.30%
Regular Instruction	28,792,353	27,854,677	3.37%
Vocational Education Instruction	1,507,534	1,252,899	20.32%
Special Education Instruction	8,569,623	8,386,011	2.19%
Instructional Support Services	2,940,957	3,275,204	-10.21%
Pupil Support Services	4,351,552	3,355,640	29.68%
Sites and Buildings	4,845,993	5,007,817	-3.23%
Fiscal and Other Fixed Cost Programs	333,493	317,804	4.94%
Food Service	2,882,701	2,735,326	5.39%
Community Service	2,904,021	2,699,478	7.58%
Interest and Fiscal Charges on Long-term Liabilities	3,268,834	3,157,140	3.54%
Total Expenses	<u>63,310,898</u>	<u>60,616,739</u>	4.44%
Change in Net Assets	2,467,509	3,055,543	-19.24%
Beginning Net Assets	21,124,631	14,353,640	47.17%
Prior Period Adjustment	-	3,715,448	0.00%
Ending Net Assets	<u>\$ 23,592,140</u>	<u>\$ 21,124,631</u>	11.68%

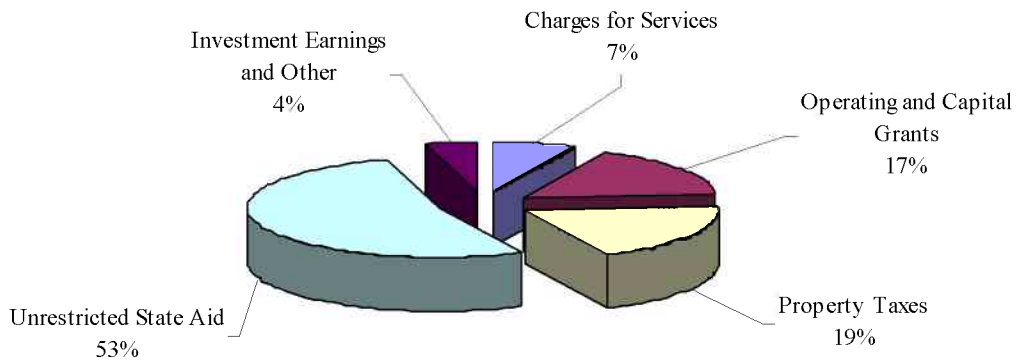
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

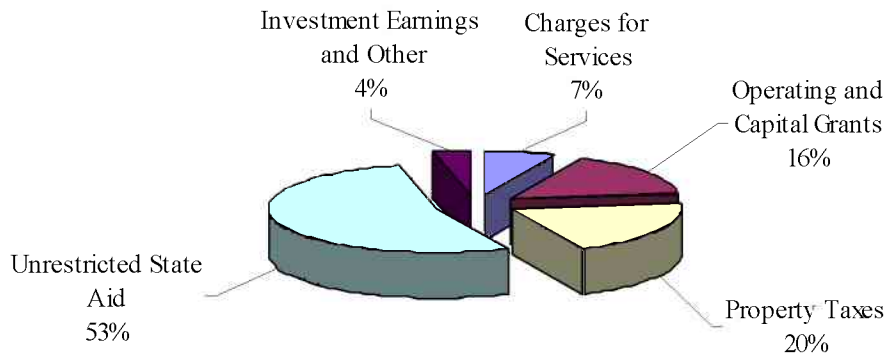
Revenues

The District's total revenues were approximately \$ 65.8 million for the year ended June 30, 2009. 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 2009**



Sources of District's Revenues for Fiscal 2008



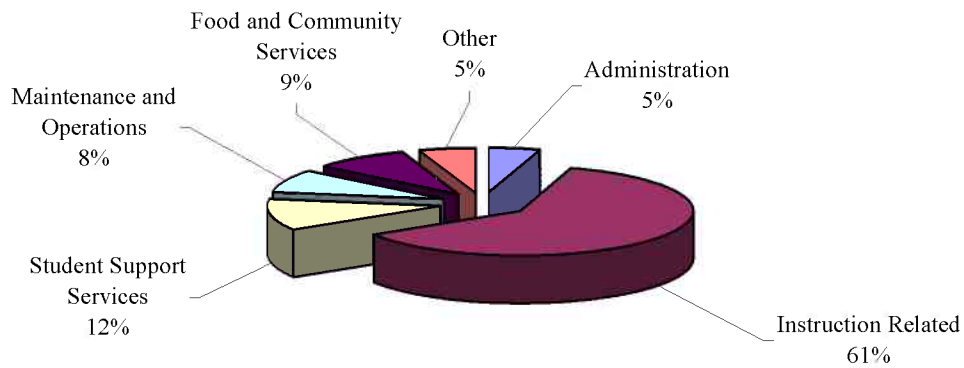
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

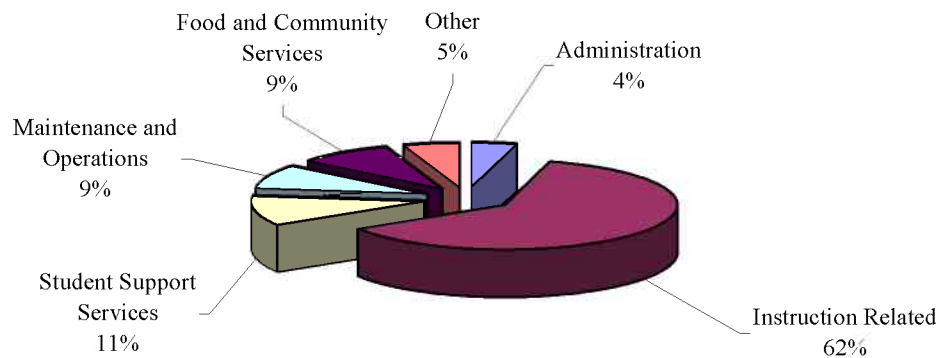
Expenses

The total cost of all programs and services rose 4.44% to \$ 63,310,898. 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 2009**



District Expenses for Fiscal 2008



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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 \$ 4,481,719. The federal and state governments subsidized certain programs with grants and contributions (\$ 9,317,332 for operating purposes and \$ 1,671,105 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 \$ 50,308,251. This remaining portion of governmental activities was paid for with \$ 12,789,803 in property taxes, \$ 34,630,791 of state aid based on the statewide education aid formula, and \$ 2,887,657 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
	2009	2008		2009	2008	
Administration	\$ 1,626,667	\$ 1,486,662	9.42%	\$ 1,626,667	\$ 1,486,662	9.42%
District Support Services	1,287,170	1,088,081	18.30%	1,276,261	1,075,468	18.67%
Regular Instruction	28,792,353	27,854,677	3.37%	24,844,067	24,315,648	2.17%
Vocational Education						
Instruction	1,507,534	1,252,899	20.32%	1,507,534	1,276,987	18.05%
Special Education						
Instruction	8,569,623	8,386,011	2.19%	3,212,742	2,988,333	7.51%
Instructional Support						
Services	2,940,957	3,275,204	-10.21%	2,938,553	3,275,204	-10.28%
Pupil Support Services	4,351,552	3,355,640	29.68%	4,071,815	3,150,267	29.25%
Sites and Buildings	4,845,993	5,007,817	-3.23%	4,015,576	4,173,472	-3.78%
Fiscal and Other Fixed						
Cost Programs	333,493	317,804	4.94%	204,233	248,220	-17.72%
Food Service	2,882,701	2,735,326	5.39%	186,397	199,011	-6.34%
Community Service	2,904,021	2,699,478	7.58%	688,063	527,803	30.36%
Interest and Fiscal Charges						
on Long-term Liabilities	3,268,834	3,157,140	3.54%	3,268,834	3,157,140	3.54%
Total	<u>\$ 63,310,898</u>	<u>\$ 60,616,739</u>	4.44%	<u>\$ 47,840,742</u>	<u>\$ 45,874,215</u>	4.29%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

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 \$ 12,706,979.

Revenues for the District's governmental funds were \$ 64,629,495 while total expenditures were \$ 66,364,974. As a result, the District completed the year with a net change in fund balance of (\$ 1,560,000).

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.

Table A-4 General Fund Revenues				
	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Property Taxes	\$ 5,616,670	\$ 5,044,603	\$ 572,067	11.34%
Other Local and County Revenues	2,294,579	2,049,547	245,032	11.96%
State Sources	42,048,119	41,291,513	756,606	1.83%
Federal Sources	1,756,777	1,561,688	195,089	12.49%
Sales and Other Conversion of Assets	<u>166,695</u>	<u>113,277</u>	<u>53,418</u>	47.16%
Total Revenue	<u>\$ 51,882,840</u>	<u>\$ 50,060,628</u>	<u>\$ 1,822,212</u>	3.64%

Total General Fund revenue increased by \$ 1,822,212, or 3.64%, from the previous year. Local property taxes increased \$ 572,067 from the 2007-2008 fiscal year whereas the revenue from State Sources increased \$ 756,606 mainly from increased enrollment. Under Other Local and County Revenues, the District received over \$ 200,000 from the Microsoft settlement. Federal Special Education carryover funds were also spent in 2008-2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

The following schedule presents a summary of General Fund expenditures.

Table A-5				
General Fund Expenditures				
	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 28,841,636	\$ 28,764,421	\$ 77,215	0.27%
Employee Benefits	9,124,823	8,931,778	193,045	2.16%
Purchased Services	7,762,849	6,591,615	1,171,234	17.77%
Supplies and Materials	2,470,304	3,007,667	(537,363)	-17.87%
Capital Expenditures	1,965,089	2,099,454	(134,365)	-6.40%
Other Expenditures	279,481	400,870	(121,389)	-30.28%
Total Expenditures	<u>\$ 50,444,182</u>	<u>\$ 49,795,805</u>	<u>\$ 648,377</u>	1.30%

Total General Fund expenditures increased \$ 648,377, or 1.30%, from the previous year. In 2008-2009, supplies and materials, capital and other expenditures decreased from the prior year due to budget reductions. The increase of \$ 1,171,234 of purchased services is consistent with the change in the transportation rates and contract. Salaries and employee benefits increased slightly, even though over \$1.3 million was reduced in the two categories, from previous negotiated employee contracts and health insurance premiums increasing 5.6% from 2007-2008.

In 2008-2009, General Fund revenues exceeded expenditures by \$ 1,440,131. As a result, the total fund balance at June 30, 2009 increased to \$ 8,936,401 of which \$ 4,657,678 is reserved or designated. The undesignated-unreserved fund balance increased slightly from the prior year, ending at a balance of \$ 4,278,723 at June 30, 2009. The District closely monitors its fund balance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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 the following two categories:

- Change in salaries from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Changes in revenue entitlements from state aid proration and enrollment changes in WADMs.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by more than \$ 386,901, the actual results for the year show \$ 1,440,131 excess revenue over expenditures. Revenues were over the District's final budget by 2.02% whereas expenditures were under budget by 1.56%.

- Actual revenues were about \$ 1,028,130 more than expected. Due to increased enrollment and conservative budgeting, the District received more general education aid than anticipated. In 2008-2009, the District also spent federal carryover special education funds, and the revenue from federal sources increased by the same amount. Over \$ 160,000 was received in third party billing in special education than what was expected.
- The actual expenditures were \$ 797,929 under budget. Most of the savings were realized under the sites and buildings category. Additional savings were realized under salaries and employee benefits from employee turnover and retirements and chargebacks to other funds. Through lower utility prices and conservation, utility expenditures came in under budget by more than \$ 325,000. The District also has been setting aside funds for the Buffalo Community Middle School tennis court renovation that will take place in 2010.

CAPITAL PROJECTS AND DEBT SERVICE FUNDS

The Capital Projects expenditures exceeded revenue by \$ 3,996,193, resulting in a fund balance of \$ 1,098,097 at June 30, 2009.

The Debt Service Fund revenue exceeded expenditures by \$ 1,103,417 in fiscal year 2008-2009. The remaining fund balance of \$ 2,389,459 at June 30, 2009 is available for meeting future debt service obligations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

OTHER NONMAJOR FUNDS

The Food Service Fund expenditures exceeded revenues by \$ 79,646 due to less a la carte sales and more meals served under free and reduced reimbursement plans, decreasing its fund balance to \$ 38,322.

The Community Service Fund expenditures exceeded revenues by \$ 27,709 and decreased its fund balance to \$ 244,700 at June 30, 2009, of which \$ 232,150 is restricted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009, the District had invested approximately \$ 111.1 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 \$ 623,284, or 0.80%, from last year. Total depreciation expense for the year was approximately \$ 3.5 million. More detailed information about capital assets can be found in Note 4 to the financial statements.

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

	2009	2008	Percentage Change
Land	\$ 4,224,158	\$ 4,304,158	-1.86%
Construction in Progress	149,532	966,514	-84.53%
Land Improvements	2,538,825	2,538,825	0.00%
Buildings and Improvements	99,430,928	94,865,966	4.81%
Equipment and Transportation Vehicles	4,745,823	4,370,620	8.58%
Total Historical Cost	111,089,266	107,046,083	3.78%
Less: Accumulated Depreciation	(32,179,926)	(28,760,027)	11.89%
Total	\$ 78,909,340	\$ 78,286,056	0.80%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

Construction - Next Five Years

After 2009-2010, no future construction projects are foreseen in the next five years. The Buffalo Community Middle School roof project and track project started at the end of the 2008-2009 school year and will be completed in 2009-2010. The projects are funded by the remaining 2003 building bond proceeds.

In December 2005, the District sold \$ 9.0 million Alternate Facility bonds for health and safety projects at Tatanka Elementary, Discovery Elementary, Montrose Elementary and Hanover Elementary. The final ventilation upgrade projects were completed during the 2008-2009 school year.

Long-Term Debt

At year-end, the District had \$ 66,116,581 in general obligation bonds and capital leases, a decrease of 5.39% from last year as shown in Table A-7. The District also had \$ 1,172,832 in future post-employment severance benefits payable at June 30, 2009. The School Board has designated \$ 1,834,523 for payment of future post employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

**Table A-7
The District's Long-Term Liabilities**

	2009	2008	Percentage Change
General Obligation Bonds	\$ 64,560,000	\$ 68,820,000	-6.19%
Net Bond Premium and Discount	588,886	(58,897)	-1099.86%
Net General Obligation Bonds	65,148,886	68,761,103	-5.25%
Obligations Under Capital Leases	967,695	1,123,434	-13.86%
Net G.O. Bonds and Capital Leases	66,116,581	69,884,537	-5.39%
Severance Payable	1,172,832	419,706	179.44%
Compensated Absences Payable	92,790	120,030	-22.69%
Other Post Employment Benefits Payable	697,172	-	0.00%
Total	\$ 68,079,375	\$ 70,424,273	-3.33%

Bond Ratings

The District's general obligation bonds carry an MSDE enhanced 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, 2009**

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. The District's 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% for 2007-2008 and 1% for 2008-2009. During the 2009 legislative session, the basic general education formula was frozen for the next two years. In addition, part of the 2009-2010 basic general education formula was back-filled with federal stabilization dollars. The State's revenue projections continue to project a deficit in the state's budget. Operating referendums of \$ 110 and \$ 379 per pupil are set to expire in 2010 and 2012 respectively. Those referendums will need to be renewed and new operating referendum funds will be needed. All of this suggests the need for conservative budgeting practices.

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.

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BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
June 30, 2009

	<u>Governmental Activities</u>
ASSETS:	
Cash and Investments	\$ 13,209,564
Current Property Taxes Receivable	7,317,674
Delinquent Property Taxes Receivable	304,034
Accounts Receivable	467,901
Interest Receivable	46,906
Due from Department of Education	4,445,749
Due from Other Minnesota School Districts	108,944
Due from Federal Government through Department of Education	1,063,648
Due from Other Governmental Units	347,296
Inventory	201,953
Prepaid Items	181,019
Equity Interest in Joint Venture	967,000
Capital Assets, Net of Accumulated Depreciation:	
Land	4,224,158
Construction in Progress	149,532
Land Improvements	932,953
Buildings	71,461,412
Machinery and Equipment	2,141,285
	<u>\$ 107,571,028</u>
LIABILITIES AND NET ASSETS:	
Liabilities:	
Accounts Payable	\$ 937,904
Salaries and Benefits Payable	910,081
Interest Payable	1,259,223
Due to Other Minnesota School Districts	319,920
Due to Other Governmental Units	76,798
Unearned Revenue	76,007
Property Taxes Levied for Subsequent Year's Expenditures	12,319,580
Bond Principal Payable:	
Payable Within One Year	4,225,886
Payable After One Year	60,923,000
Capital Lease Payable:	
Payable Within One Year	162,591
Payable After One Year	805,104
Compensated Absences Payable:	
Payable Within One Year	92,790
Severance Payable:	
Payable Within One Year	43,385
Payable After One Year	1,129,447
Other Post Employment Benefits Payable:	
Payable Within One Year	697,172
Total Liabilities	<u>83,978,888</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	13,890,856
Restricted for:	
Debt Service	1,304,631
Other Purposes	1,546,146
Unrestricted	6,850,507
Total Net Assets	<u>23,592,140</u>
	<u>\$ 107,571,028</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, 2009

	Governmental Activities:			Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Administration	\$ 1,626,667	\$ -	\$ -	\$ -	\$ (1,626,667)	
District Support Services	1,287,170	10,909	-	-	(1,276,261)	
Elementary and Secondary Regular Instruction	28,792,353	404,831	2,686,277	857,178	(24,844,067)	
Vocational Education Instruction	1,507,534	-	-	-	(1,507,534)	
Special Education Instruction	8,569,623	310,382	5,046,499	-	(3,212,742)	
Instructional Support Services	2,940,957	2,404	-	-	(2,938,553)	
Pupil Support Services	4,351,552	106,600	173,137	-	(4,071,815)	
Sites and Buildings	4,845,993	16,490	-	813,927	(4,015,576)	
Fiscal and Other Fixed Cost Programs	333,493	129,260	-	-	(204,233)	
Food Service	2,882,701	1,742,673	953,631	-	(186,397)	
Community Education and Services	2,904,021	1,758,170	457,788	-	(688,063)	
Interest and Fiscal Charges on Long-Term Debt	3,268,834	-	-	-	(3,268,834)	
Total Governmental Activities	\$ 63,310,898	\$ 4,481,719	\$ 9,317,332	\$ 1,671,105	(47,840,742)	
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes					5,639,847	
Property Taxes, Levied for Community Service					452,810	
Property Taxes, Levied for Debt Service					6,697,146	
State Aid-Formula Grants					34,630,791	
Other General Revenues					1,452,167	
Investment Income					325,017	
Net Income from Joint Venture					967,000	
Gain on Sale of Capital Assets					143,473	
Total General Revenues					50,308,251	
Change in Net Assets					2,467,509	
Net Assets - Beginning					21,124,631	
Net Assets - Ending					\$ 23,592,140	

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

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

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
ASSETS:				
Cash and Investments	\$ 6,328,344	\$ 5,178,913	\$ 1,702,307	\$ 13,209,564
Current Property Taxes Receivable	3,172,472	3,823,023	322,179	7,317,674
Delinquent Property Taxes Receivable	127,159	165,825	11,050	304,034
Accounts Receivable	467,871	-	30	467,901
Interest Receivable	46,906	-	-	46,906
Due from Department of Education	4,348,598	37,784	59,367	4,445,749
Due from Federal Government through Department of Education	1,063,648	-	-	1,063,648
Due from Other Minnesota School Districts	64,070	-	44,874	108,944
Due from Other Governmental Units	347,296	-	-	347,296
Due from Other Funds	25,406	-	-	25,406
Inventory	108,677	-	93,276	201,953
Prepaid Items	136,938	-	44,081	181,019
	\$ 16,237,385	\$ 9,205,545	\$ 2,277,164	\$ 27,720,094
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 775,608	\$ -	\$ 162,296	\$ 937,904
Salaries and Benefits Payable	836,820	-	73,261	910,081
Due to Other Minnesota School Districts	319,920	-	-	319,920
Due to Other Governmental Units	74,681	-	2,117	76,798
Due to Other Funds	-	-	25,406	25,406
Deferred Revenue	147,159	165,825	67,057	380,041
Property Taxes Levied for Subsequent Year's Expenditures	5,103,411	6,650,261	565,908	12,319,580
Severance Payable	43,385	-	-	43,385
Total Liabilities	7,300,984	6,816,086	896,045	15,013,115
Fund Balances:				
Reserved	1,252,074	-	232,150	1,484,224
Unreserved:				
Major Funds	7,684,327	2,389,459	-	10,073,786
Nonmajor Special Revenue Funds	-	-	50,872	50,872
Nonmajor Capital Projects Funds	-	-	1,098,097	1,098,097
Total Fund Balances	8,936,401	2,389,459	1,381,119	12,706,979
	\$ 16,237,385	\$ 9,205,545	\$ 2,277,164	\$ 27,720,094
Total Liabilities and Fund Balances	\$ 16,237,385	\$ 9,205,545	\$ 2,277,164	\$ 27,720,094

INDEPENDENT SCHOOL DISTRICT NO. 877

Buffalo-Hanover-Montrose, Minnesota

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

June 30, 2009

Total Fund Balances - Governmental Funds \$ 12,706,979

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	111,089,266
Less Accumulated Depreciation	(32,179,926)

Equity interests in underlying capital assets of joint ventures are not reported
in the funds because they do not represent current financial assets.

Equity Interest in Joint Venture - Wright Technical Center	967,000
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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	(64,560,000)
Net Discount (Premium) on Bonds Payable	(588,886)
Capital Lease Payable	(967,695)
Compensated Absences Payable	(92,790)
Severance Payable	(1,129,447)
Other Post Employment Benefits Payable	(697,172)

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.

304,034

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

(1,259,223)

Total Net Assets - Governmental Activities \$ 23,592,140

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, 2009

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
REVENUES:				
Local Property Taxes	\$ 5,616,670	\$ 6,682,836	\$ 451,858	\$ 12,751,364
Other Local and County Revenues	2,294,579	103,367	1,951,589	4,349,535
Revenue from State Sources	42,048,119	377,840	598,027	43,023,986
Revenue from Federal Sources	1,756,777	-	838,465	2,595,242
Sales and Other Conversion of Assets	166,695	-	1,742,673	1,909,368
Total Revenues	51,882,840	7,164,043	5,582,612	64,629,495
EXPENDITURES:				
Current:				
Administration	1,595,240	-	-	1,595,240
District Support Services	1,190,288	-	-	1,190,288
Elementary and Secondary Regular Instruction	24,631,882	-	-	24,631,882
Vocational Education Instruction	1,475,971	-	-	1,475,971
Special Education Instruction	8,283,137	-	-	8,283,137
Instructional Support Services	2,501,043	-	-	2,501,043
Pupil Support Services	4,333,368	-	-	4,333,368
Sites and Buildings	4,134,671	-	135,711	4,270,382
Fiscal and Other Fixed Cost Programs	333,493	-	-	333,493
Food Service	-	-	2,712,424	2,712,424
Community Education and Services	-	-	2,829,317	2,829,317
Capital Outlay	1,965,089	-	3,320,905	5,285,994
Debt Service:				
Principal	-	3,795,000	-	3,795,000
Interest and Fiscal Charges	-	3,127,435	-	3,127,435
Total Expenditures	50,444,182	6,922,435	8,998,357	66,364,974
Excess of Revenues Over (Under) Expenditures	1,438,658	241,608	(3,415,745)	(1,735,479)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Assets	5,216	-	138,257	143,473
Bond Issuance	-	20,340,000	-	20,340,000
Bond Premium	-	497,006	-	497,006
Bond Refunding Payments	-	(20,805,000)	-	(20,805,000)
Transfers In	-	829,803	3,743	833,546
Transfers Out	(3,743)	-	(829,803)	(833,546)
Total Other Financing Sources (Uses)	1,473	861,809	(687,803)	175,479
Net Change in Fund Balances	1,440,131	1,103,417	(4,103,548)	(1,560,000)
FUND BALANCES:				
Beginning of Year	7,496,270	1,286,042	5,484,667	14,266,979
End of Year	\$ 8,936,401	\$ 2,389,459	\$ 1,381,119	\$ 12,706,979

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

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, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (1,560,000)
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	4,161,857
Depreciation Expense	(3,455,029)
Loss on Disposal	(83,544)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	967,000
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	27,240
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(709,741)
Other post employment benefits are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.	(697,172)
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on the net assets in the Statement of Activities.	3,950,739
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.	10,503
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.	(647,783)
Proceeds from the sale of bonds are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.	(20,340,000)
Principal refunding payments on long-term debt are recognized as an other financing use in the governmental funds but have no effect in the net assets in the Statement of Activities.	20,805,000
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.	<u>38,439</u>
Change in Net Assets - Governmental Activities	<u>\$ 2,467,509</u>

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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES:				
Local Property Taxes	\$ 4,810,213	\$ 5,578,535	\$ 5,616,670	\$ 38,135
Other Local and County Revenues	1,556,443	1,815,763	2,294,579	478,816
Revenue from State Sources	42,864,799	41,780,211	42,048,119	267,908
Revenue from Federal Sources	1,522,768	1,506,701	1,756,777	250,076
Sales and Other Conversion of Assets	48,500	173,500	166,695	(6,805)
Total Revenues	50,802,723	50,854,710	51,882,840	1,028,130
EXPENDITURES:				
Current:				
Administration	1,616,564	1,621,049	1,595,240	(25,809)
District Support Services	1,134,495	1,171,630	1,190,288	18,658
Elementary and Secondary Regular				
Instruction	24,803,120	24,980,995	24,631,882	(349,113)
Vocational Education Instruction	1,393,043	1,405,613	1,475,971	70,358
Special Education Instruction	8,065,314	8,262,784	8,283,137	20,353
Instructional Support Services	2,335,008	2,220,078	2,501,043	280,965
Pupil Support Services	4,321,693	4,365,843	4,333,368	(32,475)
Sites and Buildings	4,829,014	4,831,524	4,134,671	(696,853)
Fiscal and Other Fixed Cost Programs	149,000	334,750	333,493	(1,257)
Capital Outlay	2,041,345	2,047,845	1,965,089	(82,756)
Total Expenditures	50,688,596	51,242,111	50,444,182	(797,929)
Excess of Revenues Over (Under) Expenditures	114,127	(387,401)	1,438,658	1,826,059
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Assets	500	500	5,216	4,716
Transfers Out	-	-	(3,743)	(3,743)
Total Other Financing Sources (Uses)	500	500	1,473	973
Net Change in Fund Balances	\$ 114,627	\$ (386,901)	1,440,131	\$ 1,827,032
FUND BALANCES:				
Beginning of Year			7,496,270	
End of Year			\$ 8,936,401	

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

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

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.

1. Joint Ventures

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 13.

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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

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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2009 were comprised of shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and money market funds. 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, 2009 to address the following risks:

Custodial Credit Risk – Deposits: For a deposit, this 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: This 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: This 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 School Board.

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Year's Expenditures

Property taxes levied for subsequent year's 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 2008, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2009. 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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 anticipated to be paid upon employees' retirements is recorded as severance payable 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.

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.

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.

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, 2009.

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, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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/expense 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 Operations 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, 2009**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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, 2009.

Fund	Appropriations	Expenditures	Over
Debt Service	\$ 27,666,785	\$ 27,727,435	\$ 60,650
Community Service	2,553,142	2,857,589	304,447

NOTE 3 – DEPOSITS AND INVESTMENTS

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, 2009, the District's bank balance of \$ 1,674,812 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	\$ 1,085,190
Petty Cash	<u>6,000</u>
Total Deposits	<u><u>\$ 1,091,190</u></u>

B. Investments

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

Type	Total	Ratings
Negotiable Certificates of Deposit	5,890,000	N/A
Money Markets	391,145	N/A
MSDLAF	<u>5,837,229</u>	AAAm
Total Investments	<u><u>\$ 12,118,374</u></u>	

Concentration of Credit Risk: As of June 30, 2009, the District did not have any investments that exceeded 5% of the total investments.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 1,091,190
Investments	<u>12,118,374</u>
 Total Deposits and Investments	 <u><u>\$ 13,209,564</u></u>

Deposits and investments at June 30, 2009 are presented as follows:

Statement of Net Assets:	
Cash and Investments	<u><u>\$ 13,209,564</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 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	\$ 4,304,158	\$ -	\$ 80,000	\$ 4,224,158
Construction in Progress	<u>966,514</u>	<u>149,532</u>	<u>966,514</u>	<u>149,532</u>
Total Capital Assets not being Depreciated	5,270,672	149,532	1,046,514	4,373,690
 Capital Assets being Depreciated:				
Land Improvements	2,538,825	-	-	2,538,825
Buildings	94,865,966	4,564,962	-	99,430,928
Equipment and Vehicles	<u>4,370,620</u>	<u>413,877</u>	<u>38,674</u>	<u>4,745,823</u>
Total Capital Assets being Depreciated	101,775,411	4,978,839	38,674	106,715,576
 Less Accumulated Depreciation for:				
Land Improvements	1,479,301	126,571	-	1,605,872
Buildings	25,040,385	2,929,131	-	27,969,516
Equipment and Vehicles	<u>2,240,341</u>	<u>399,327</u>	<u>35,130</u>	<u>2,604,538</u>
Total Accumulated Depreciation	<u>28,760,027</u>	<u>3,455,029</u>	<u>35,130</u>	<u>32,179,926</u>
 Total Capital Assets being Depreciated, Net	<u>73,015,384</u>	<u>1,523,810</u>	<u>3,544</u>	<u>74,535,650</u>
 Governmental Activities Capital Assets, Net	<u><u>\$ 78,286,056</u></u>	<u><u>\$ 1,673,342</u></u>	<u><u>\$ 1,050,058</u></u>	<u><u>\$ 78,909,340</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 – CAPITAL ASSETS

Depreciation expense of \$ 3,455,029 for the year ended June 30, 2009 was charged to the following governmental functions:

Administration	\$ 591
District Support Services	20,628
Elementary and Secondary Regular Instruction	3,245,094
Special Education Instruction	12,099
Instructional Support Services	71,619
Pupil Support	525
Sites and Buildings	46,749
Food Service	48,131
Community Service	<u>9,593</u>
Total Depreciation Expense	<u><u>\$ 3,455,029</u></u>

NOTE 5 – INTERFUND ACTIVITY

A. Transfers

The composition of interfund transfers as of June 30, 2009 was as follows:

	Debt Service	Transfer In Other Nonmajor Funds	Total
Transfer Out:			
General Fund	\$ -	\$ 3,743	\$ 3,743
Other Nonmajor Funds	<u>829,803</u>	<u>-</u>	<u>829,803</u>
Total	<u><u>\$ 829,803</u></u>	<u><u>\$ 3,743</u></u>	<u><u>\$ 833,546</u></u>

The purpose of the transfers was to move funding for operating purposes and close the alternative facilities project that is complete.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 5 – INTERFUND ACTIVITY

B. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund Other Nonmajor Funds</u>
General	\$ <u>25,406</u>

The above loan was to eliminate a temporary negative cash position in the Food Service Fund.

NOTE 6 – 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 was made with proceeds from general education aids.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 7 – 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:						
2003B School Building Bonds	11/01/03	2.00%-4.60%	\$ 42,400,000	02/01/24	\$ 37,885,000	\$ 2,240,000
2005A Alternative Facilities Bonds	12/01/05	3.75%-3.80%	9,100,000	02/01/18	6,335,000	510,000
2008 School Building Refunding Bonds	12/17/08	4.00%-5.125%	20,340,000	02/01/22	<u>20,340,000</u>	<u>1,430,000</u>
Total G.O. Bonds					<u>64,560,000</u>	<u>4,180,000</u>
Net Bond (Discount) Premium					<u>588,886</u>	<u>45,886</u>
Net Bonds Payable					65,148,886	4,225,886
Capital Leases Payable					967,695	162,591
Severance Payable					1,172,832	43,385
Compensated Absences Payable					92,790	92,790
Unfunded Other Post Employment Benefits Obligation					<u>697,172</u>	<u>697,172</u>
Total all Long-Term Liabilities					<u>\$ 68,079,375</u>	<u>\$ 5,221,824</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. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 7 – LONG-TERM DEBT

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
2010	\$ 4,180,000	\$ 2,930,089	\$ 7,110,089
2011	3,880,000	2,655,752	6,535,752
2012	4,215,000	2,493,765	6,708,765
2013	4,365,000	2,317,253	6,682,253
2014	4,535,000	2,134,490	6,669,490
2015-2019	21,910,000	7,816,200	29,726,200
2020-2024	21,475,000	3,082,994	24,557,994
Total	<u>\$ 64,560,000</u>	<u>\$ 23,430,543</u>	<u>\$ 87,990,543</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, 2009**

NOTE 7 – LONG-TERM DEBT

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 <u>June 30,</u>	
2010	\$ 205,243
2011	205,230
2012	129,485
2013	70,657
2014	70,658
2015-2019	353,290
2020-2022	<u>176,645</u>
Total Minimum Lease Payments	1,211,208
Less Amount Representing Interest	<u>243,513</u>
Present Value of Minimum Lease Payments	<u><u>\$ 967,695</u></u>

The carrying value and related accumulated depreciation at June 30, 2009 for the assets purchased was as follows:

Carrying Value	\$ 1,352,373
Less Accumulated Depreciation	<u>(231,394)</u>
Assets Net of Depreciation	<u><u>\$ 1,120,979</u></u>

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	\$ 68,820,000	\$ 20,340,000	\$ 24,600,000	\$ 64,560,000
Net (Discount) Premium	(58,897)	509,687	(138,096)	588,886
Capital Leases Payable	1,123,434	-	155,739	967,695
Severance Payable	419,706	753,126	-	1,172,832
Compensated Absences Payable	120,030	468,726	495,966	92,790
Other Post Employment Benefits Payable	<u>-</u>	<u>1,265,851</u>	<u>568,679</u>	<u>697,172</u>
Total Long-Term Liabilities	<u><u>\$ 70,424,273</u></u>	<u><u>\$ 23,337,390</u></u>	<u><u>\$ 25,682,288</u></u>	<u><u>\$ 68,079,375</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 8 – 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	Other Nonmajor Funds	Total
Reserved for:			
Severance Pay	\$ 658,484	\$ -	\$ 658,484
Health and Safety	128,458	-	128,458
Operating Capital	390,331	-	390,331
Staff Development	74,801	-	74,801
Community Education	-	107,205	107,205
Adult Basic Education	-	11,289	11,289
Early Childhood and Family Education	-	69,226	69,226
School Readiness	-	44,430	44,430
	\$ 1,252,074	\$ 232,150	\$ 1,484,224
Total Reserved Fund Balance			

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.

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 Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were reserved for staff development related to Finance Codes 306, 307 and 308 *Minnesota Statutes* 122A.61. Expenditures for staff development must equal at least 2% of the basic general education revenue.

INDEPENDENT SCHOOL DISTRICT NO. 877
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 – RESERVED FUND BALANCES/RESTRICTED NET ASSETS

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 \$ 1,834,523 set aside for severance insurance premiums, \$ 259,291 for dental insurance, \$ 469,191 for carryover, \$ 260,000 for third party special education, \$ 327,355 for capital and \$ 255,244 for student activities under School Board control.

NOTE 9 – 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 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, 2009**

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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:

Tier I	Step Rate Formula	Percentage
Basic	First 10 years	2.2% per year
	All years 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
Buffalo-Hanover-Montrose, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 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 55103-4000 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 July 1, 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 \$ 3.645 billion.

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Funding Policy (Continued)

The District's contributions for the years ended June 30, 2009, 2008 and 2007 were \$ 1,243,010, \$ 1,238,959 and \$ 1,094,430, 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, 2009**

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 6.0%, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.5% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.75% effective January 1, 2009. The District’s contributions for the years ended June 30, 2009, 2008 and 2007 were \$ 528,020, \$ 513,124 and \$ 466,221, respectively, equal to the contractually required contributions for each year as set by state statute.

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 10 – 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 \$ 76,626 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 makes matching contribution for some administrative employees of \$ 16,500. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$ 722,358.

NOTE 11 – 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 pretax 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 pretax 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, 2009

NOTE 11 – FLEXIBLE BENEFIT PLAN

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 it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by Blue Cross Blue Shield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2009, the District contributed \$ 568,679 to the plan. As of July 1, 2008, there were approximately 67 retirees receiving health benefits from the District's health plan.

C. Annual Other Post Employment Benefit Cost and Net Other Post Employment Benefit Obligation

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

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

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual Other Post Employment Benefit Cost and Net Other Post Employment Benefit Obligation (Continued)

Annual Required Contribution	\$ 1,265,851
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	1,265,851
Contributions Made	(568,679)
Increase in Net OPEB Obligation	697,172
Net OPEB Obligation - Beginning of Year	-
 Net OPEB Obligation - End of Year	 \$ 697,172

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	\$ 1,265,851	\$ 568,679	45%	\$ 697,172

D. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 10,694,069 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 10,694,069. The covered payroll (annual payroll of active employees covered by the plan) was \$ 28,429,448, and the ratio of the UAAL to the covered payroll was 37.6%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At the July 1, 2008 actuarial valuation date, the entry age normal cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter-term, based on District's general assets). The District currently plans to fund the liability, see Subsequent Event Note 15. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 10% initially, reduced incrementally to an ultimate rate of 5% after 10 years. Both rates included a 4% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2008 was 30 years.

NOTE 13 – COMMITMENTS

A. Construction Contracts

At June 30, 2009, the District had outstanding construction commitments as follows:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended through June 30, 2009</u>	<u>Commitment</u>
Buffalo Middle School Roofing	\$ 737,844	\$ 112,652	\$ 625,192

B. Joint Powers Agreement

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

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009

NOTE 13 – COMMITMENTS

B. Joint Powers Agreement (Continued)

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

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, MN 55313-1936.

C. Rental Agreement

The District entered into a rental agreement with the City of Buffalo, Minnesota (the “City”) in fiscal year 2001 for use of the Civic Center by the District.

This agreement is for a period of 15 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.

NOTE 14 – SUBSEQUENT EVENT

On September 15, 2009, \$ 10,845,000 G.O. Taxable OPEB Bonds, Series 2009A, were issued. The Bonds proceeds were receipted into a new trust fund set up for the funding of the District’s OPEB obligation.

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REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
For the Year Ended June 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/08*	\$ -	\$ 10,694,069	\$10,694,069	0.0%	\$ 28,429,448	37.6%

* This Schedule was implemented in 2009 and, therefore, contains only one year of data. See Note 12 in the Notes to the Financial Statements for more details on this Schedule.

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Local Property Taxes	\$ 4,810,213	\$ 5,578,535	\$ 5,616,670	\$ 38,135
Other Local and County Revenues	1,556,443	1,815,763	2,294,579	478,816
Revenue from State Sources	42,864,799	41,780,211	42,048,119	267,908
Revenue from Federal Sources	1,522,768	1,506,701	1,756,777	250,076
Sales and Other Conversion of Assets	48,500	173,500	166,695	(6,805)
Total Revenues	<u>50,802,723</u>	<u>50,854,710</u>	<u>51,882,840</u>	<u>1,028,130</u>
EXPENDITURES:				
Administration:				
Salaries	1,115,550	1,120,250	1,111,614	(8,636)
Employee Benefits	416,450	416,235	421,432	5,197
Purchased Services	25,714	25,714	13,002	(12,712)
Supplies and Materials	16,550	16,550	11,578	(4,972)
Capital Expenditures	10,200	10,200	10,758	558
Other Expenditures	42,300	42,300	37,614	(4,686)
Total Administration	<u>1,626,764</u>	<u>1,631,249</u>	<u>1,605,998</u>	<u>(25,251)</u>
District Support Services:				
Salaries	637,200	644,800	645,847	1,047
Employee Benefits	185,810	215,345	223,527	8,182
Purchased Services	275,770	275,770	289,831	14,061
Supplies and Materials	16,015	16,015	17,622	1,607
Capital Expenditures	30,450	30,450	18,601	(11,849)
Other Expenditures	19,700	19,700	13,461	(6,239)
Total District Support Services	<u>1,164,945</u>	<u>1,202,080</u>	<u>1,208,889</u>	<u>6,809</u>
Elementary and Secondary Regular Instruction:				
Salaries	16,780,762	16,814,488	16,493,721	(320,767)
Employee Benefits	5,360,960	5,446,178	5,520,783	74,605
Purchased Services	1,268,106	1,337,275	1,341,756	4,481
Supplies and Materials	1,321,597	1,311,929	1,200,459	(111,470)
Capital Expenditures	235,934	242,434	307,774	65,340
Other Expenditures	71,695	71,125	75,163	4,038
Total Elementary and Secondary Regular Instruction	<u>25,039,054</u>	<u>25,223,429</u>	<u>24,939,656</u>	<u>(283,773)</u>

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES:				
Vocational Education Instruction:				
Salaries	\$ 627,000	\$ 674,350	\$ 669,905	\$ (4,445)
Employee Benefits	185,450	198,670	192,921	(5,749)
Purchased Services	542,823	494,323	579,570	85,247
Supplies and Materials	37,370	37,870	32,553	(5,317)
Capital Expenditures	15,200	15,200	13,623	(1,577)
Other Expenditures	400	400	1,022	622
Total Vocational Education Instruction	1,408,243	1,420,813	1,489,594	68,781
Special Education Instruction:				
Salaries	5,752,000	5,837,000	5,736,015	(100,985)
Employee Benefits	1,705,800	1,752,670	1,698,873	(53,797)
Purchased Services	518,225	583,225	692,527	109,302
Supplies and Materials	89,289	89,889	151,491	61,602
Capital Expenditures	79,664	79,664	37,246	(42,418)
Other Expenditures	-	-	4,231	4,231
Total Special Education Instruction	8,144,978	8,342,448	8,320,383	(22,065)
Instructional Support Services:				
Salaries	1,388,250	1,369,350	1,689,735	320,385
Employee Benefits	385,675	379,645	355,442	(24,203)
Purchased Services	84,438	84,438	94,087	9,649
Supplies and Materials	316,945	316,945	300,252	(16,693)
Capital Expenditures	571,252	571,252	564,964	(6,288)
Other Expenditures	159,700	69,700	61,527	(8,173)
Total Instructional Support Services	2,906,260	2,791,330	3,066,007	274,677
Pupil Support Services:				
Salaries	755,750	749,900	742,783	(7,117)
Employee Benefits	220,320	220,320	217,422	(2,898)
Purchased Services	2,956,365	3,056,365	3,285,624	229,259
Supplies and Materials	388,258	338,258	87,064	(251,194)
Capital Expenditures	1,900	1,900	532	(1,368)
Other Expenditures	1,000	1,000	475	(525)
Total Pupil Support Services	4,323,593	4,367,743	4,333,900	(33,843)

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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES:				
Sites and Buildings:				
Salaries	\$ 1,915,500	\$ 1,903,200	\$ 1,752,017	\$ (151,183)
Employee Benefits	524,410	539,220	494,421	(44,799)
Purchased Services	1,453,276	1,453,276	1,152,608	(300,668)
Supplies and Materials	877,120	877,120	669,286	(207,834)
Capital Expenditures	1,096,745	1,096,745	1,011,591	(85,154)
Other Expenditures	58,708	58,708	66,339	7,631
Total Sites and Buildings	5,925,759	5,928,269	5,146,262	(782,007)
Fiscal and Other Fixed Cost Programs:				
Purchased Services	129,000	314,750	313,843	(907)
Other Expenditures	20,000	20,000	19,650	(350)
Total Fiscal and Other Fixed Cost Programs	149,000	334,750	333,493	(1,257)
Total Expenditures	50,688,596	51,242,111	50,444,182	(797,929)
Excess of Revenues Over (Under) Expenditures	114,127	(387,401)	1,438,658	1,826,059
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Assets	500	500	5,216	4,716
Transfers Out	-	-	(3,743)	(3,743)
Total Other Financing Sources (Uses)	500	500	1,473	973
Net Change in Fund Balances	\$ 114,627	\$ (386,901)	1,440,131	\$ 1,827,032
FUND BALANCES:				
Beginning of Year			7,496,270	
End of Year			\$ 8,936,401	

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

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Special Revenue Funds			Capital Project Fund	Total Nonmajor Funds
	Food Service	Community Service	Total Special Revenue	Building Construction	
ASSETS:					
Cash and Investments	\$ -	\$ 480,558	\$ 480,558	\$ 1,221,749	\$ 1,702,307
Current Property Taxes Receivable	-	322,179	322,179	-	322,179
Delinquent Property Taxes Receivable	-	11,050	11,050	-	11,050
Accounts Receivable	-	30	30	-	30
Due from Department of Education	-	59,367	59,367	-	59,367
Due from Other Minnesota School Districts	-	44,874	44,874	-	44,874
Inventory	93,276	-	93,276	-	93,276
Prepaid Items	32,415	11,666	44,081	-	44,081
Total Assets	\$ 125,691	\$ 929,724	\$ 1,055,415	\$ 1,221,749	\$ 2,277,164
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 6,406	\$ 32,238	\$ 38,644	\$ 123,652	\$ 162,296
Salaries and Benefits Payable	(450)	73,711	73,261	-	73,261
Due to Other Governmental Units	-	2,117	2,117	-	2,117
Due to Other Funds	25,406	-	25,406	-	25,406
Deferred Revenue	56,007	11,050	67,057	-	67,057
Property Taxes Levied for Subsequent Year's Expenditures	-	565,908	565,908	-	565,908
Total Liabilities	87,369	685,024	772,393	123,652	896,045
Fund Balances:					
Reserved:					
Community Education Programs	-	107,205	107,205	-	107,205
Adult Basic Education	-	11,289	11,289	-	11,289
Early Childhood and Family Education Programs	-	69,226	69,226	-	69,226
School Readiness	-	44,430	44,430	-	44,430
Unreserved - Undesignated	38,322	12,550	50,872	1,098,097	1,148,969
Total Fund Balances	38,322	244,700	283,022	1,098,097	1,381,119
Total Liabilities and Fund Balances	\$ 125,691	\$ 929,724	\$ 1,055,415	\$ 1,221,749	\$ 2,277,164

**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, 2009**

	Special Revenue Funds			Capital Project Fund	Total Nonmajor Funds
	Food Service	Community Service	Total Special Revenue	Building Construction	
REVENUES:					
Local Property Taxes	\$ -	\$ 451,858	\$ 451,858	\$ -	\$ 451,858
Other Local and County Revenues	5,290	1,891,418	1,896,708	54,881	1,951,589
Revenue from State Sources	115,166	482,861	598,027	-	598,027
Revenue from Federal Sources	838,465	-	838,465	-	838,465
Sales and Other Conversion of Assets	1,742,673	-	1,742,673	-	1,742,673
Total Revenues	2,701,594	2,826,137	5,527,731	54,881	5,582,612
EXPENDITURES:					
Current:					
Sites and Buildings	-	-	-	135,711	135,711
Food Service	2,712,424	-	2,712,424	-	2,712,424
Community Education and Services	-	2,829,317	2,829,317	-	2,829,317
Capital Outlay	75,676	28,272	103,948	3,216,957	3,320,905
Total Expenditures	2,788,100	2,857,589	5,645,689	3,352,668	8,998,357
Excess of Revenues Under Expenditures	(86,506)	(31,452)	(117,958)	(3,297,787)	(3,415,745)
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Assets	6,860	-	6,860	131,397	138,257
Transfers In	-	3,743	3,743	-	3,743
Transfers Out	-	-	-	(829,803)	(829,803)
Total Other Financing Sources (Uses)	6,860	3,743	10,603	(698,406)	(687,803)
Net Change in Fund Balances	(79,646)	(27,709)	(107,355)	(3,996,193)	(4,103,548)
FUND BALANCES:					
Beginning of Year	117,968	272,409	390,377	5,094,290	5,484,667
End of Year	\$ 38,322	\$ 244,700	\$ 283,022	\$ 1,098,097	\$ 1,381,119

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES:				
Other Local and County Revenues	\$ 10,000	\$ 10,000	\$ 5,290	\$ (4,710)
Revenue from State Sources	116,900	116,900	115,166	(1,734)
Revenue from Federal Sources	755,400	755,400	838,465	83,065
Sales and Other Conversion of Assets	1,967,370	1,967,370	1,742,673	(224,697)
Total Revenues	2,849,670	2,849,670	2,701,594	(148,076)
EXPENDITURES:				
Food Service:				
Salaries	990,000	990,000	1,021,843	31,843
Employee Benefits	292,075	292,075	326,348	34,273
Purchased Services	129,500	129,500	132,913	3,413
Supplies and Materials	1,365,500	1,365,500	1,224,133	(141,367)
Capital Expenditures	100,000	100,000	75,676	(24,324)
Other Expenditures	13,500	13,500	7,187	(6,313)
Total Expenditures	2,890,575	2,890,575	2,788,100	(102,475)
Excess of Revenues Under Expenditures	(40,905)	(40,905)	(86,506)	(45,601)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	5,000	5,000	6,860	1,860
Net Change in Fund Balances	\$ (35,905)	\$ (35,905)	(79,646)	\$ (43,741)
FUND BALANCES:				
Beginning of Year			117,968	
End of Year			\$ 38,322	

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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES:				
Local Property Taxes	\$ 453,292	\$ 453,292	\$ 451,858	\$ (1,434)
Other Local and County Revenues	1,688,930	1,688,930	1,891,418	202,488
Revenue from State Sources	451,875	451,875	482,861	30,986
Total Revenues	2,594,097	2,594,097	2,826,137	232,040
EXPENDITURES:				
Community Education and Services:				
Salaries	1,745,512	1,745,512	1,872,896	127,384
Employee Benefits	361,180	361,180	449,043	87,863
Purchased Services	243,900	243,900	310,246	66,346
Supplies and Materials	154,000	154,000	176,329	22,329
Capital Expenditures	39,500	39,500	28,272	(11,228)
Other Expenditures	9,050	9,050	20,803	11,753
Total Expenditures	2,553,142	2,553,142	2,857,589	304,447
Excess of Revenues Over (Under) Expenditures	40,955	40,955	(31,452)	(72,407)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	3,743	3,743
Net Change in Fund Balances	\$ 40,955	\$ 40,955	(27,709)	\$ (68,664)
FUND BALANCES:				
Beginning of Year			272,409	
End of Year			\$ 244,700	

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

<u>Federal Funding Source</u>	<u>Federal CFDA Number</u>	<u>Grant Name</u>	<u>Expenditures</u>
<i>Through Minnesota Department of Education:</i>			
USDOA	10.550	Commodities Programs	\$ 165,932
USDOA	10.553	School Breakfast (Cluster)	87,211
USDOA	10.555	Type A Lunch (Cluster)	582,273
USDOA	10.556	Special Milk (Cluster)	3,049
USDOED	84.010	Title I, Part A	355,780
USDOED	84.027	Special Education (Cluster)	1,115,354
USDOED	84.173	Handicapped Early Education (Cluster)	22,674
USDOED	84.186	Title IV, Part A - Safe Drug Free Schools	12,922
USDOED	84.365	Title III, Part A - Language Enhancement	11,919
USDOED	84.367	Title II, Part A - Improving Teacher Quality	<u>170,432</u>
Total Federal Expenditures			<u><u>\$ 2,527,546</u></u>

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2009

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.

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OTHER INFORMATION

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

DEFERRED TAX LEVIES
(Unaudited)

Calendar Year Levied	Collected	School Building Refunding Bonds of 1999	School Building Bonds of 2003	Alternative Facilities Bonds of 2005	Total
2009	2010	\$ 2,535,540	\$ 3,441,000	\$ 886,042	\$ 6,862,582
2010	2011	2,521,470	3,619,300	903,433	7,044,203
2011	2012	2,526,300	3,591,900	898,249	7,016,449
2012	2013	2,522,940	3,577,300	902,777	7,003,017
2013	2014	2,123,100	3,963,400	900,874	6,987,374
2014	2015	2,135,280	3,928,800	903,236	6,967,316
2015	2016	2,134,020	3,016,800	904,418	6,055,238
2016	2017	2,135,490	3,024,200	899,168	6,058,858
2017	2018	2,125,541	3,018,400	-	5,143,941
2018	2019	2,108,741	3,024,100	-	5,132,841
2019	2020	2,112,167	3,014,400	-	5,126,567
2020	2021	645,731	4,475,400	-	5,121,131
2021	2022	-	5,199,500	-	5,199,500
2022	2023	-	5,206,000	-	5,206,000
Total		<u>\$ 25,626,320</u>	<u>\$ 52,100,500</u>	<u>\$ 7,198,197</u>	<u>\$ 84,925,017</u>

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

**PROPERTY TAX LEVIES, RATES AND VALUATIONS
LAST 10 FISCAL YEARS
June 30, 2009
(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>
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	33,777,333	0.28308	5,548,494	468,565	7,072,607	13,089,666
2009	34,865,502	0.26180	5,680,660	565,908	6,650,262	12,896,830

Source: School Tax Report

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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 9, 2009

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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2009. 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.

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.



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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the District in a separate letter dated October 9, 2009.

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.

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 9, 2009

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, 2009. 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, 2009.



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.

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.

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, 2009**

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?	No
• 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 <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556
Name of Federal Program or Cluster:	Child Nutrition Cluster
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, 2009**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Audit Finding 08-01

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

This issue was corrected during 2009.



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REPORT ON LEGAL COMPLIANCE

October 9, 2009

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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2009.

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, Vire, Ltd.
KERN, DEWENTER, VIENE, 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, 2009**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Minnesota Statutes 471.425, Subd. 4a requires contracts of a government entity to have the prime contractor pay any subcontractor within 10 days of the prime contractor's receipt of payment. The contract also must require the prime contractor pay interest of 1.5% per month or any part of a month to the subcontractor for any undisputed amount not paid to the subcontractor within the 10 days.

Not all of the District's contracts included the proper verbiage to account for prompt payment of subcontractors.

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
The Buildings and Grounds Director will notify the engineering company on future construction contracts to include the subcontractor language.
3. Official Responsible for Ensuring CAP
Administration is responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2010.
5. Plan to Monitor Completion of CAP
Administration will be monitoring this CAP. The Buildings and Grounds Director will notify the engineering company on future construction contracts to include the subcontractor language.

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

**SCHEDULE OF FINDINGS AND CORRECTIVE
ACTION PLANS ON LEGAL COMPLIANCE
June 30, 2009**

CURRENT AND PRIOR 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, 2010.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP. An update will be given at the January 2010 School Board Meeting when the cash and investment policies are reviewed.

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

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE**
For the Year Ended June 30, 2009

	Audited	UFARS	Audit-UFARS		Audited	UFARS	Audit-UFARS
01 GENERAL FUND				07 DEBT SERVICE FUND			
Total Revenue	\$ 51,882,840	\$ 51,882,842	\$ 2	Total Revenue	\$ 7,164,043	\$ 7,164,043	\$
Total Expenditures	50,444,182	50,444,184	2	Total Expenditures	6,922,435	6,922,434	1
<i>Reserved:</i>				<i>Reserved:</i>			
403 Staff Development	74,801	74,801		425 Bond Refundings			
405 Deferred Maintenance				451 QZAB Payments			
406 Health and Safety	128,458	128,458		<i>Unreserved:</i>			
407 Capital Projects Levy	-	-		422 Unreserved/Undesignated	2,389,459	2,389,459	
408 Cooperative Revenue							
411 Severance Pay	658,484	658,484		08 TRUST FUND			
414 Operating Debt	-	-		Total Revenue	\$	\$	\$
416 Levy Reduction				Total Expenditures			
418 Taconite Building Maintenance				<i>Reserved:</i>			
419 Encumbrances				419 Encumbrances			
423 Certain Teacher Programs				<i>Unreserved:</i>			
424 Operating Capital	390,331	390,331		422 Unreserved/Undesignated			
426 \$ 25 Taconite							
427 Disabled Accessibility				09 AGENCY FUND			
428 Learning and Development				<i>Unreserved:</i>			
434 Area Learning Center				422 Unreserved/Undesignated	\$	\$	\$
435 Contracted Alternative Programs							
436 State Approved Alternative Program				20 INTERNAL SERVICE FUND			
438 Gifted and Talented				Total Revenue	\$	\$	\$
441 Basic Skills Programs				Total Expenditures			
445 Career Technical Programs				<i>Reserved:</i>			
446 First Grade Preparedness				419 Encumbrances			
449 Safe School Crime				<i>Unreserved:</i>			
450 Prekindergarten				422 Unreserved/Undesignated			
451 QZAB Payments							
452 OPEB Liabilities not in Trust				25 OPEB REVOCABLE TRUST			
453 Unfunded Severance and Retirement Levy				Total Revenue	\$	\$	\$
<i>Unreserved:</i>				Total Expenditures			
418 Severance-Insurance Premium				<i>Reserved:</i>			
422 Unreserved/Undesignated	7,684,327	7,684,326	(1)	419 Encumbrances			
				<i>Unreserved:</i>			
				422 Unreserved/Undesignated			
02 FOOD SERVICES FUND				45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$ 2,701,594	\$ 2,701,594	\$	Total Revenue	\$	\$	\$
Total Expenditures	2,788,100	2,788,099	(1)	Total Expenditures			
<i>Reserved:</i>				<i>Reserved:</i>			
411 Severance Pay				419 Encumbrances			
419 Encumbrances				<i>Unreserved:</i>			
452 OPEB Liabilities not in Trust				422 Unreserved/Undesignated			
<i>Unreserved:</i>							
418 Severance-Insurance Premium				47 OPEB DEBT SERVICE			
422 Unreserved/Undesignated	38,322	38,323	1	Total Revenue	\$	\$	\$
				Total Expenditures			
04 COMMUNITY SERVICE FUND				<i>Reserved:</i>			
Total Revenue	\$ 2,826,137	\$ 2,826,137	\$	425 Bond Refundings			
Total Expenditures	2,857,589	2,857,590	1	<i>Unreserved:</i>			
<i>Reserved:</i>				422 Unreserved/Undesignated			
411 Severance Pay							
419 Encumbrances				<i>Unaudited Data Reporting Elements</i>			
426 \$ 25 Taconite				FY09 SAFE SCHOOL MAINTENANCE OF EFFORT			
431 Community Education	107,205	107,205		Total Expenditures	\$ 1,061,080		
432 ECFE	69,226	69,226		FTE	17.1		
444 School Readiness	44,430	44,430					
447 Adult Basic Education	11,289	11,289		FY09 OPERATING CAPITAL TRANSFER			
452 OPEB Liabilities not in Trust				Per Pupil Amount	\$ 51		
<i>Unreserved:</i>				AMCPU	6,419		
418 Severance-Insurance Premium				Total Transfer	327,355		
422 Unreserved/Undesignated	12,550	12,548	(2)				
06 BUILDING CONSTRUCTION FUND							
Total Revenue	\$ 54,881	\$ 54,881	\$				
Total Expenditures	3,352,668	3,352,669	1				
<i>Reserved:</i>							
407 Capital Projects Levy							
409 Alternative Facility Program							
413 Project Funded by COP							
419 Encumbrances							
<i>Unreserved:</i>							
422 Unreserved/Undesignated	1,098,097	1,098,097					