INDEPENDENT SCHOOL DISTRICT NO. 831
FOREST LAKE, MINNESOTA

Financial Report

Year Ended
June 30, 2010

INDEPENDENT SCHOOL DISTRICT NO. 831

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INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration
Year Ended June 30, 2010

SCHOOL BOARD

	Board Position During 2009–2010
Bill Bresin	Chairperson (President)
Robert Rapheal	Vice Chairperson (Vice President)
Joe Grafft	Treasurer
Dan Kieger	Clerk
Kathy Bystrom	Director
Karen Morehead	Director
Erin Turner	Director

ADMINISTRATION

Linda Madsen	Superintendent
Lawrence Martini	Director of Business Services

FINANCIAL SECTION

MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information presented has been derived from the District's financial statements for the year ended June 30, 2009, and in our report dated November 9, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior year partial comparative information. Such information does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2009, from which such partial information was derived.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

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

November 17, 2010

This section of Independent School District No. 831, Forest Lake, Minnesota's (the District) annual financial report presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

Fund Financial Statements

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

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

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Assets
as of June 30, 2010 and 2009

	2010	2009
Assets		
Current and other assets	$ 42,688,378	$ 35,096,350
Capital assets, net of depreciation	50,860,841	52,663,362
Total assets	**$ 93,549,219**	**$ 87,759,712**
Liabilities		
Current and other liabilities	$ 31,253,949	$ 23,390,432
Long-term liabilities, including due within one year	40,707,970	43,834,330
Total liabilities	**$ 71,961,919**	**$ 67,224,762**
Net assets		
Invested in capital assets, net of related debt	$ 19,466,942	$ 18,575,722
Restricted	2,382,628	3,800,266
Unrestricted	(262,270)	(1,841,038)
Total net assets	**$ 21,587,300**	**$ 20,534,950**

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

The financial position of the District is improving as measured by total net assets. For the year ended June 30, 2010, total net assets increased by $1,052,350 or 5.1 percent to a level of $21,587,300. The increase in the current year is directly related to the current year operating results. As presented in the table above, invested in capital assets, net of related debt and the unrestricted portion of net assets experienced an increase over the prior year, while restricted net assets decreased.

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

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2010 and 2009

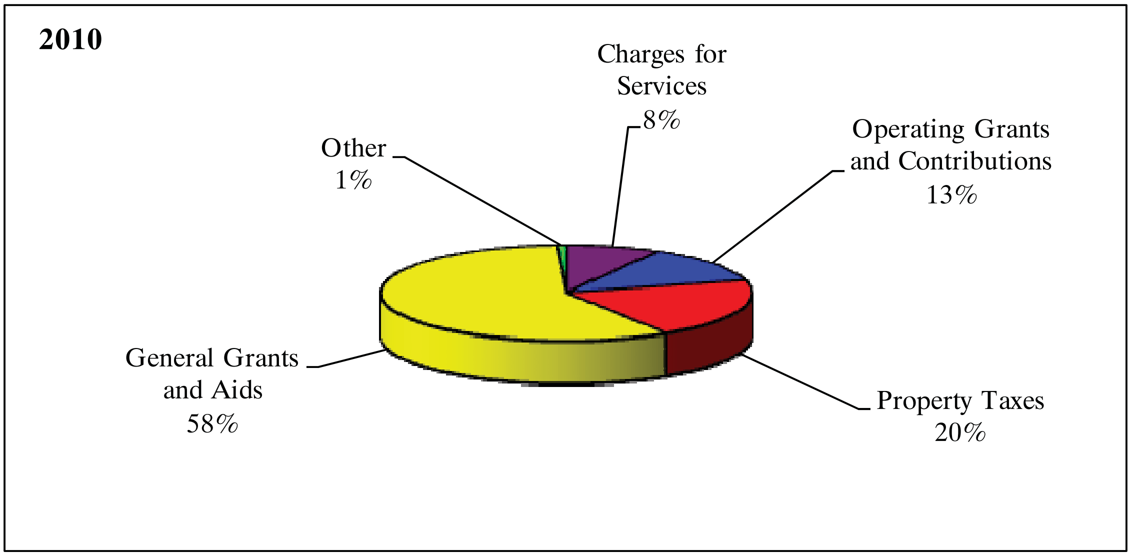
	2010	2009
Revenues		
Program revenues		
Charges for services	$ 6,157,018	$ 6,317,834
Operating grants and contributions	9,452,410	8,948,473
General revenues		
Property taxes	14,997,282	15,746,200
General grants and aids	43,413,186	46,440,215
Other	622,628	809,674
Total revenues	74,642,524	78,262,396
Expenses		
Administration	3,147,946	3,225,772
District support services	1,702,804	1,739,222
Elementary and secondary regular instruction	28,492,182	26,371,372
Vocational education instruction	956,606	965,967
Special education instruction	9,584,548	9,693,826
Instructional support services	2,331,929	5,610,049
Pupil support services	7,668,210	7,868,603
Sites and buildings	7,705,210	7,633,246
Fiscal and other fixed cost programs	264,920	273,996
Food service	3,932,226	3,961,742
Community service	3,965,024	4,152,305
Depreciation not allocated to other functions	2,178,622	2,208,316
Interest and fiscal charges	1,659,947	1,598,247
Total expenses	73,590,174	75,302,663
Change in net assets	1,052,350	2,959,733
Net assets – beginning	20,534,950	17,575,217
Net assets – ending	$ 21,587,300	$ 20,534,950

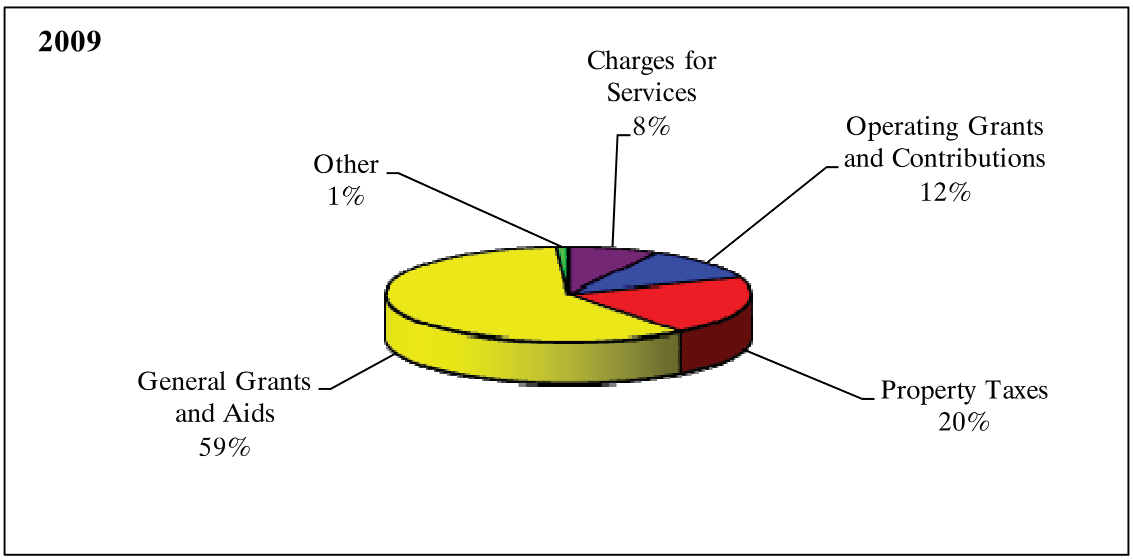
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The cost of all governmental activities this year was $73,590,174. Some of the cost was paid directly by users of the programs totaling $6,157,018. The state and federal government subsidized certain programs directly with grants and contributions totaling $9,452,410. However, the bulk of the costs were paid for by the taxpayers of the entire state totaling $43,413,186 and local school district taxpayers totaling $14,997,282.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2010 and 2009



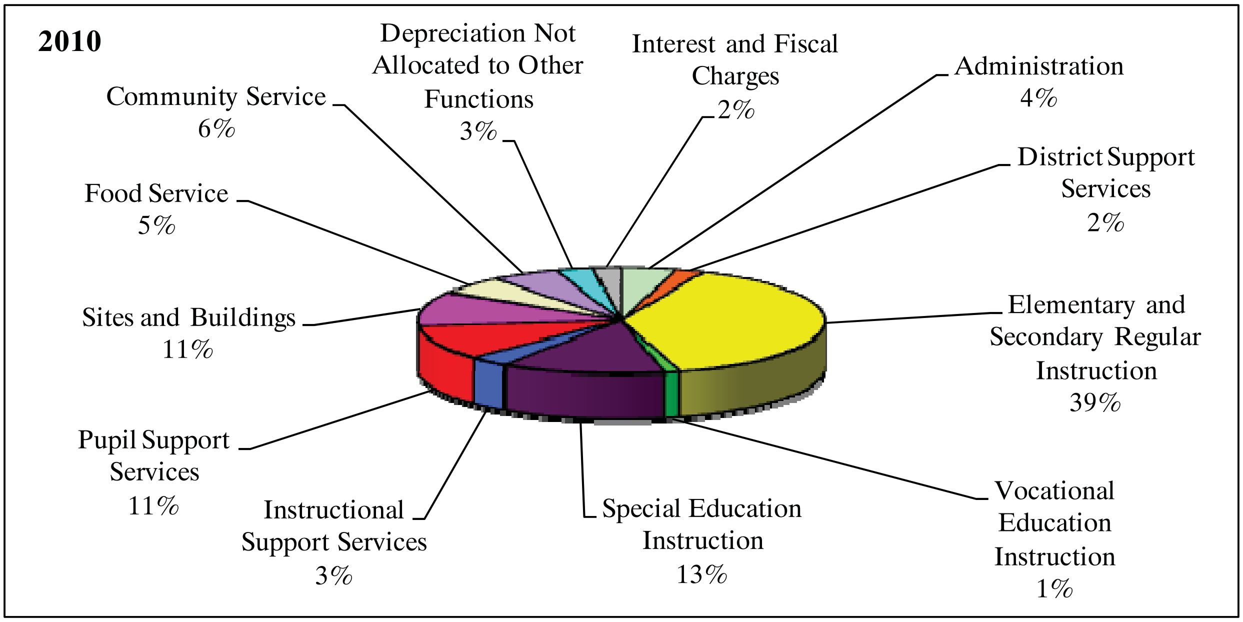


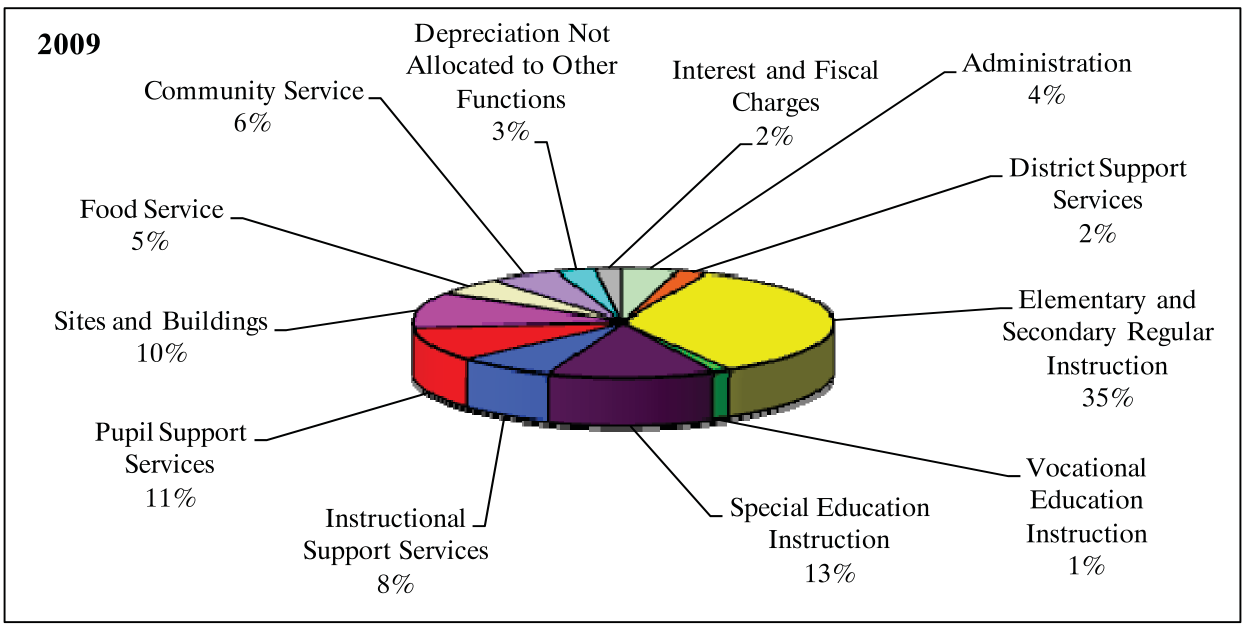
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants. Consequently, the District's funding depends significantly on the state's financial fluctuations.

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

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2010 and 2009





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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Table 3
Governmental Fund Balances
as of June 30, 2010 and 2009

	2010	2009	Increase (Decrease)
Major funds			
General	$ 5,969,011	$ 5,578,192	$ 390,819
Debt Service	1,295,789	1,752,176	(456,387)
Nonmajor funds			
Food Service Special Revenue	981,987	1,154,252	(172,265)
Community Service Special Revenue	559,886	567,813	(7,927)
Total governmental funds	$ 8,806,673	$ 9,052,433	$ (245,760)

Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue and other financing sources	$ 63,657,820	$ 62,657,820	$ (1,000,000)	(1.6%)
Expenditures and other financing uses	$ 63,657,820	$ 63,157,820	$ (500,000)	(0.8%)

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amends that budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements.

The District's finance committee reviews the budget twice a year and recommends budget amendments based on new information. During the 2010 fiscal year, revenue budget adjustments totaling $1,000,000 and expenditure adjustments of $500,000 were adopted.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

	2010 Actual	Over (Under) Final Budget Amount	Over (Under) Final Budget Percent	Over (Under) Prior Year Amount	Over (Under) Prior Year Percent
Revenue	$ 63,013,537	$ 355,717	0.6%	$ (2,856,624)	(4.3%)
Expenditures	62,622,718	$ (535,102)	(0.8%)	$ (9,118,737)	(12.7%)
Other financing sources (uses)	–	$ –	–	$ (6,091,809)	100.0%
Net change in fund balances	$ 390,819				

Actual revenue for fiscal year 2010 was 0.6 percent more than budgeted, while actual expenditures were 0.8 percent under budget. The revenue variance was spread across all sources, including the federal sources being $369,966 over budget. The expenditure variance in 2010 was spread across several programs, with the largest under spending occurring in pupil support services.

Total General Fund revenue was $2,856,624 or 4.3 percent less than the 2009 fiscal year. Decreases in property taxes, investment earnings, and state sources were partially offset by an increase in other revenue and federal sources.

The expenditures and other financing sources (uses) decreased as presented above due to the $6 million of contributions made to the other post-employment benefits (OPEB) trust financed with bond proceeds in the prior year.

Comments on Significant Activities in Other Funds

The Debt Service Fund revenue totaled $3,851,434 for the year ended June 30, 2010. This was a decrease of $480,694 from the 2009 level. Debt Service Fund expenditures were $4,307,821, which is an increase of $213,151 from fiscal year 2009. The unreserved fund balance for the Debt Service Fund declined from $1,752,176 at the beginning of the year to $1,295,789 at the end of the 2010 fiscal year.

The Food Service Special Revenue Fund recognized $3,721,256 in revenues for the year ended June 30, 2010. This was a decrease of $37,195 from the 2009 level. Food Service Special Revenue Fund expenditures were $3,893,521, which is an increase of $67,070 from fiscal year 2009. The total fund balance for the Food Service Special Revenue Fund declined from $1,154,252 at the beginning of the year to $981,987 at the end of the 2010 fiscal year.

The Community Service Special Revenue Fund recognized $3,948,564 in revenues for the year ended June 30, 2010. This was a decrease of $241,480 from the 2009 level. Community Service Special Revenue Fund expenditures were $3,956,491, which is a decrease of $202,692 from fiscal year 2009. The total fund balance for the Community Service Special Revenue Fund declined from $567,813 at the beginning of the year to $559,886 at the end of the 2010 fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2010 and 2009.

Table 6
Capital Assets

	2010	2009	Increase (Decrease)
Land	$ 1,885,726	$ 1,885,726	$ –
Buildings	81,356,255	81,356,255	–
Building and land improvements	9,230,736	8,597,327	633,409
Furniture and equipment	20,830,404	20,686,331	144,073
Less accumulated depreciation	(62,442,280)	(59,862,277)	(2,580,003)
Total	$ 50,860,841	$ 52,663,362	$ (1,802,521)
Depreciation expense	$ 2,580,003	$ 2,633,471	$ (53,468)

By the end of fiscal 2010, the District had invested $113,303,121 in a broad range of capital assets, including school buildings, athletic facilities, technology infrastructure and equipment, land and improvements, and furniture and equipment. These assets have a net value after depreciation of $50,860,841. Total depreciation expense for the year was $2,580,003.

The total value of capital assets, after depreciation, declined by $1,802,521 during the year ended June 30, 2010, as presented in the above table. This was a result of current year depreciation exceeding the level of the District's investment in capital projects completed in fiscal 2010.

Long-Term Liabilities

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

Table 7
Outstanding Long-Term Liabilities

	2010	2009	Increase (Decrease)
General obligation bonds payable	$ 35,735,000	$ 38,145,000	$ (2,410,000)
Energy lease payable	–	38,044	(38,044)
Severance benefits payable	4,272,156	5,053,761	(781,605)
Compensated absences payable	700,814	597,525	103,289
Total	$ 40,707,970	$ 43,834,330	$ (3,126,360)

Bonds payable decreased due to the planned repayment schedule reflecting principal payments during fiscal year 2010.

The decrease in the energy lease payable is due to the planned repayment schedule reflecting principal payments during fiscal year 2010.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. As of June 30, 2010, the District's outstanding general obligation bonded debt was 4.8 percent of the state limit. (See Table 8)

Table 8
Limitations on Debt

District's market value	$ 4,988,746,100
Limit rate	15.0%
Legal debt limit	$ 748,311,915

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula amount for all Minnesota school districts remained frozen in fiscal year 2010 at $5,124 and will remain at this level for fiscal year 2011. A weakened economy and growing demand on limited resources have created challenges in funding education for Minnesota schools in recent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Net Assets
as of June 30, 2010
(With Partial Comparative Information as of June 30, 2009)

	Governmental Activities	
	2010	2009
Assets		
Cash and temporary investments	$ 13,004,159	$ 15,352,939
Receivables		
Current taxes	8,502,203	8,374,750
Delinquent taxes	670,163	596,095
Accounts and interest	316,134	180,408
Due from fiduciary fund	830,137	–
Due from other governmental units	14,153,701	5,047,078
Inventory	84,094	71,615
Prepaid items	87,266	29,783
Negative net other post-employment benefit obligation	5,040,521	5,443,682
Capital assets		
Not depreciated	1,885,726	1,885,726
Depreciated, net of accumulated depreciation	48,975,115	50,777,636
Total capital assets, net of accumulated depreciation	50,860,841	52,663,362
Total assets	$ 93,549,219	$ 87,759,712
Liabilities		
Aid anticipation certificates	$ 7,780,978	$ –
Salaries and compensated absences payable	986,412	1,318,058
Accounts and contracts payable	4,290,660	3,664,473
Accrued interest payable	872,574	770,350
Due to other governmental units	7,537	21,838
Property taxes levied for subsequent year	15,037,961	15,118,772
Unearned revenue	143,283	115,396
Unamortized premiums	2,134,544	2,381,545
Long-term liabilities		
Due within one year	3,869,544	3,549,517
Due in more than one year	36,838,426	40,284,813
Total long-term liabilities	40,707,970	43,834,330
Total liabilities	71,961,919	67,224,762
Net assets		
Invested in capital assets, net of related debt	19,466,942	18,575,722
Restricted for		
Capital asset acquisition	150,927	981,890
Debt service	667,619	1,081,173
Food service	981,987	1,154,252
Community service	582,095	582,951
Unrestricted	(262,270)	(1,841,038)
Total net assets	21,587,300	20,534,950
Total liabilities and net assets	$ 93,549,219	$ 87,759,712

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Activities
Year Ended June 30, 2010
(With Partial Comparative Information for the Year Ended June 30, 2009)

	2010					2009
		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities						
Administration	$ 3,147,946	$ –	$ –	$ –	$ (3,147,946)	$ (3,122,755)
District support services	1,702,804	–	–	–	(1,702,804)	(1,739,222)
Elementary and secondary regular instruction	28,492,182	724,804	892,888	–	(26,874,490)	(25,087,278)
Vocational education instruction	956,606	29,843	25,583	–	(901,180)	(912,583)
Special education instruction	9,584,548	255,786	6,585,203	–	(2,743,559)	(3,424,947)
Instructional support services	2,331,929	–	–	–	(2,331,929)	(5,610,049)
Pupil support services	7,668,210	–	151,400	–	(7,516,810)	(7,665,157)
Sites and buildings	7,705,210	55,846	–	–	(7,649,364)	(7,562,621)
Fiscal and other fixed cost programs	264,920	–	–	–	(264,920)	(273,996)
Food service	3,932,226	2,406,772	1,308,693	–	(216,761)	(231,522)
Community service	3,965,024	2,683,967	488,643	–	(792,414)	(599,663)
Depreciation not allocated to other functions	2,178,622	–	–	–	(2,178,622)	(2,208,316)
Interest and fiscal charges	1,659,947	–	–	–	(1,659,947)	(1,598,247)
Total governmental activities	$ 73,590,174	$ 6,157,018	$ 9,452,410	$ –	(57,980,746)	(60,036,356)
	General revenues					
	Taxes					
	Property taxes, levied for general purposes				10,511,847	10,997,644
	Property taxes, levied for community service				778,746	621,990
	Property taxes, levied for debt service				3,706,689	4,126,566
	General grants and aids				43,413,186	46,440,215
	Other general revenues				548,472	541,174
	Investment earnings				74,156	268,500
	Total general revenues				59,033,096	62,996,089
	Change in net assets				1,052,350	2,959,733
	Net assets – beginning				20,534,950	17,575,217
	Net assets – ending				$ 21,587,300	$ 20,534,950

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Balance Sheet
Governmental Funds
as of June 30, 2010
(With Partial Comparative Information as of June 30, 2009)

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds 2010	Total Governmental Funds 2009
Assets					
Cash and temporary investments	$ 8,198,777	$ 2,828,950	$ 1,976,432	$ 13,004,159	$ 15,352,939
Receivables					
Current taxes	5,412,439	2,633,273	456,491	8,502,203	8,374,750
Delinquent taxes	468,999	169,137	32,027	670,163	596,095
Accounts and interest	280,356	–	35,778	316,134	180,408
Due from fiduciary fund	544,117	286,020	–	830,137	–
Due from other governmental units	13,816,405	41,810	295,486	14,153,701	5,047,078
Inventory	–	–	84,094	84,094	71,615
Prepaid items	81,071	–	6,195	87,266	29,783
Total assets	$ 28,802,164	$ 5,959,190	$ 2,886,503	$ 37,647,857	$ 29,652,668
Liabilities and Fund Balances					
Liabilities					
Aid anticipation certificates	$ 7,780,978	$ –	$ –	$ 7,780,978	$ –
Salaries and compensated absences payable	852,755	–	133,657	986,412	1,318,058
Accounts and contracts payable	4,027,090	8,255	255,315	4,290,660	3,664,473
Accrued interest payable	124,922	–	–	124,922	–
Due to other governmental units	–	–	7,537	7,537	21,838
Property taxes levied for subsequent year	9,716,078	4,535,664	786,219	15,037,961	15,118,772
Unearned revenue	3,590	–	139,693	143,283	115,396
Deferred revenue – delinquent taxes	327,740	119,482	22,209	469,431	361,698
Total liabilities	22,833,153	4,663,401	1,344,630	28,841,184	20,600,235
Fund balances					
Reserved	150,927	–	533,568	684,495	1,526,987
Unreserved – designated	1,258,590	–	–	1,258,590	1,226,524
Unreserved – undesignated, reported in major funds	4,559,494	1,295,789	–	5,855,283	5,121,954
Unreserved – undesignated, reported in special revenue funds	–	–	1,008,305	1,008,305	1,176,968
Total fund balances	5,969,011	1,295,789	1,541,873	8,806,673	9,052,433
Total liabilities and fund balances	$ 28,802,164	$ 5,959,190	$ 2,886,503	$ 37,647,857	$ 29,652,668

See notes to basic financial statements

Reconciliation of the Balance Sheet to the Statement of Net Assets as of June 30, 2010 (With Partial Comparative Information as of June 30, 2009)

	2010	2009
Total fund balances – governmental funds	$ 8,806,673	$ 9,052,433
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets are included in net assets, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	113,303,121	112,525,639
Accumulated depreciation	(62,442,280)	(59,862,277)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(35,735,000)	(38,145,000)
Energy lease payable	–	(38,044)
Severance benefits payable	(4,272,156)	(5,053,761)
Compensated absences payable	(700,814)	(597,525)
Net other post-employment benefit obligations reported in the Statement of Net Assets do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.	5,040,521	5,443,682
Certain revenues (including delinquent property taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	469,431	361,698
Accrued interest payable on long-term debt is included in net assets, but is excluded from fund balances until due and payable.	(747,652)	(770,350)
Debt issuance premiums and discounts are excluded from net assets until amortized, but are included in fund balances upon issuance as other financing sources and uses.	(2,134,544)	(2,381,545)
Total net assets – governmental activities	$ 21,587,300	$ 20,534,950

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010
(With Partial Comparative Information for the Year Ended June 30, 2009)

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds 2010	Total Governmental Funds 2009
Revenue					
Local sources					
Property taxes	$ 10,431,320	$ 3,686,554	$ 771,675	$ 14,889,549	$ 15,634,588
Investment earnings	54,057	10,029	10,070	74,156	268,500
Other	1,614,751	–	5,090,739	6,705,490	6,859,008
State sources	43,539,037	154,851	663,273	44,357,161	52,031,233
Federal sources	7,374,372	–	1,134,063	8,508,435	3,357,455
Total revenue	63,013,537	3,851,434	7,669,820	74,534,791	78,150,784
Expenditures					
Current					
Administration	3,042,912	–	–	3,042,912	3,613,965
District support services	1,691,524	–	–	1,691,524	1,949,761
Elementary and secondary regular instruction	29,049,049	–	–	29,049,049	31,798,935
Vocational education instruction	954,236	–	–	954,236	1,077,914
Special education instruction	9,503,795	–	–	9,503,795	9,691,245
Instructional support services	2,300,442	–	–	2,300,442	5,877,717
Pupil support services	7,410,014	–	–	7,410,014	8,454,240
Sites and buildings	8,335,957	–	–	8,335,957	8,937,592
Fiscal and other fixed cost programs	264,920	–	–	264,920	273,996
Food service	–	–	3,759,662	3,759,662	3,698,301
Community service	–	–	3,917,039	3,917,039	4,134,943
Capital outlay	–	–	173,311	173,311	152,390
Debt service					
Principal	38,044	2,410,000	–	2,448,044	2,378,191
Interest and fiscal charges	31,825	1,897,821	–	1,929,646	1,782,569
Total expenditures	62,622,718	4,307,821	7,850,012	74,780,551	83,821,759
Excess (deficiency) of revenue over expenditures	390,819	(456,387)	(180,192)	(245,760)	(5,670,975)
Other financing sources (uses)					
Debt issued	–	–	–	–	6,450,000
Premium on debt issued	–	–	–	–	27,384
Total other financing sources (uses)	–	–	–	–	6,477,384
Net change in fund balances	390,819	(456,387)	(180,192)	(245,760)	806,409
Fund balances					
Beginning of year	5,578,192	1,752,176	1,722,065	9,052,433	8,246,024
End of year	$ 5,969,011	$ 1,295,789	$ 1,541,873	$ 8,806,673	$ 9,052,433

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2010
(With Partial Comparative Information for the Year Ended June 30, 2009)

	2010	2009
Total net change in fund balances – governmental funds	$ (245,760)	$ 806,409
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net assets and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	777,482	757,724
Depreciation expense	(2,580,003)	(2,633,471)
The amount of debt proceeds is reported in the governmental funds as a source of financing. Debt proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	–	(6,450,000)
Certain expenses are included in the change in net assets, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	781,605	2,363,496
Compensated absences payable	(103,289)	25,152
Repayment of long-term debt principal does not affect the change in net assets. However, it reduces fund balances.		
General obligation bonds payable	2,410,000	2,315,000
Energy lease payable	38,044	63,191
The change in net other post-employment benefit obligations do not require the use of current financial resources and are not included in the change in fund balances until due.	(403,161)	5,443,682
Interest on long-term debt is included in the change in net assets as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	22,698	(61,810)
Debt issuance premiums and discounts are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	247,001	218,748
Certain revenues (including delinquent property taxes) are included in the change in net assets, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	107,733	111,612
Change in net assets – governmental activities	$ 1,052,350	$ 2,959,733

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2010

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 10,426,700	$ 10,426,700	$ 10,431,320	$ 4,620
Investment earnings	250,000	250,000	54,057	(195,943)
Other	1,237,400	1,237,400	1,614,751	377,351
State sources	49,139,314	43,739,314	43,539,037	(200,277)
Federal sources	2,604,406	7,004,406	7,374,372	369,966
Total revenue	63,657,820	62,657,820	63,013,537	355,717
Expenditures				
Current				
Administration	3,120,968	3,073,053	3,042,912	(30,141)
District support services	2,685,768	1,936,108	1,691,524	(244,584)
Elementary and secondary regular instruction	28,500,067	28,772,369	29,049,049	276,680
Vocational education instruction	935,884	935,984	954,236	18,252
Special education instruction	9,405,366	9,406,134	9,503,795	97,661
Instructional support services	2,287,127	2,287,058	2,300,442	13,384
Pupil support services	8,326,218	8,226,476	7,410,014	(816,462)
Sites and buildings	7,355,482	8,211,038	8,335,957	124,919
Fiscal and other fixed cost programs	1,001,340	270,000	264,920	(5,080)
Debt service				
Principal	39,000	39,000	38,044	(956)
Interest and fiscal charges	600	600	31,825	31,225
Total expenditures	63,657,820	63,157,820	62,622,718	(535,102)
Net change in fund balances	$ –	$ (500,000)	390,819	$ 890,819
Fund balances				
Beginning of year			5,578,192	
End of year			$ 5,969,011	

See notes to basic financial statements

Statement of Fiduciary Net Assets
as of June 30, 2010

	Employee Benefit Trust Funds
Assets	
Cash and short-term investments	$ 2,537,469
Accounts receivable	45,274
Investments, at fair value	
U.S. government agency securities	566,449
State and local bonds	2,572,207
Negotiable certificates of deposit	743,450
MN trust investment shares portfolio	1,135,828
Total assets	7,600,677
Liabilities	
Accounts payable	1,337,549
Due to governmental funds	830,137
Total liabilities	2,167,686
Net assets	
Held in trust for employee benefits and health savings accounts	$ 5,432,991

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2010

	Employee Benefit Trust Funds
Additions	
Contributions	
Plan members	$ 2,466
Investment earnings	218,595
Total additions	221,061
Deductions	
Benefits paid to plan members	546,932
Change in net assets	(325,871)
Net assets	
Beginning of year	5,758,862
End of year	$ 5,432,991

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2010, the District paid TIES $499,163 for services provided.

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

C. Government-Wide Financial Statement Presentation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

D. Fund Financial Statement Presentation

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds

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

Major Governmental Funds

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

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

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to account for the District's child nutrition program.

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

Fiduciary Funds

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

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

E. Budgetary Information

The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. The School Board adopted an annual budget for the following fiscal year for all governmental funds. The School Board approved mid-year budget revisions decreasing General Fund revenues by $1,000,000 and expenditures by $500,000. Actual Food Service Special Revenue Fund, Community Service Special Revenue Fund, and Debt Service Fund expenditures exceeded final budgeted appropriations by $144,471, $8,412, and $307,821, respectively, for the year ended June 30, 2010.

F. Cash and Temporary Investments

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

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

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

G. Receivables

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

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $542,734 of the property tax levy collectible in 2010 as revenue to the District in fiscal year 2010. The remaining portion of the taxes collectible in 2010 is recorded as deferred revenue (property taxes levied for subsequent year).

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

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

K. Capital Assets

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

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

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

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums 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.

M. Vacation Pay

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

N. Sick Pay

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

O. Severance Benefits

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

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

P. Use of Estimates

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

Q. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2010.

R. 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 statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	6,152,008
Investments		14,407,554
Total deposits and investments	$	20,559,562

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

Statement of Net Assets		
Cash and temporary investments	$	13,004,159
Statement of Fiduciary Net Assets		
Cash and short-term investments		2,537,469
Investments		5,017,934
Total deposits and investments	$	20,559,562

B. Deposits

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

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

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

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

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

At year-end, the carrying amount of the District's deposits was $6,152,008 while the balance on the bank records was $6,621,488. At June 30, 2010, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk		Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	5 to 10	
U.S. government agency securities	AAA	S&P	$ 4,743,378	$ 566,449	$ –	$ 5,309,827
State and local bonds	AAA	S&P	$ –	$ 2,006,061	$ –	2,006,061
State and local bonds	AA	S&P	$ –	$ 267,634	$ –	267,634
State and local bonds	Aa2	Moody's	$ –	$ –	$ 298,513	298,513
Commercial paper	A-1+	S&P	$ 999,190	$ –	$ –	999,190
Commercial paper	A-1	S&P	$ 749,212	$ –	$ –	749,212
Negotiable certificates of deposit	N/A	N/A	$ 2,232,000	$ 743,450	$ –	2,975,450
Investment pools/mutual funds						
MN School District Liquid Asset Fund	AAAm	S&P				102,586
MN Trust Investment Shares Portfolio	Aaa	Moody's				1,699,062
Wells Fargo Advantage Government	AAA	S&P				19
Total investments						$ 14,407,554

N/A – Not Applicable

The MN School District Liquid Asset Fund and the MN Trust Investment Shares Portfolio are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The fair value position in the pools are the same as the value of the pool shares.

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk. At June 30, 2010, the District's investment portfolio includes the following percentages of specific issuers:

U.S. government agency securities	
Federal Home Loan Mortgage Corp.	12.11%
Freddie Mac	6.94%
Federal National Mortgage Association	13.87%
Commercial paper	
General Electric	6.94%
Northwest Natural Gas	5.20%

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

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 1,885,726	$ –	$ –	$ 1,885,726
Capital assets, depreciated				
Buildings	81,356,255	–	–	81,356,255
Building and land improvements	8,597,327	633,409	–	9,230,736
Furniture and equipment	20,686,331	144,073	–	20,830,404
Total capital assets, depreciated	110,639,913	777,482	–	111,417,395
Less accumulated depreciation for				
Buildings	(38,427,470)	(1,870,511)	–	(40,297,981)
Building and land improvements	(3,295,593)	(261,723)	–	(3,557,316)
Furniture and equipment	(18,139,214)	(447,769)	–	(18,586,983)
Total accumulated depreciation	(59,862,277)	(2,580,003)	–	(62,442,280)
Net capital assets, depreciated	50,777,636	(1,802,521)	–	48,975,115
Total capital assets, net	$ 52,663,362	$ (1,802,521)	$ –	$ 50,860,841

Depreciation expense for the year ended June 30, 2010 was charged to the following governmental functions:

Administration	$ 352
District support services	1,765
Elementary and secondary regular instruction	11,666
Vocational education instruction	2,370
Special education instruction	1,895
Instructional support services	4,516
Pupil support services	232,996
Community service	8,533
Food service	137,288
Depreciation not allocated to other functions	2,178,622
Total depreciation expense	$ 2,580,003

NOTE 4 – AID ANTICIPATION CERTIFICATES

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

Issue Date	Maturity Date	Interest Rate	June 30, 2009	Additions	Retirements	June 30, 2010
8/27/2009	9/10/2010	2.00%	$ –	$ 7,780,978	$ –	$ 7,780,978

Interest and fiscal charges of $31,316 were charged to the General Fund in fiscal year 2010 related to these certificates.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Refunding bonds	01/27/2005	5.00%	$ 34,140,000	02/01/2019	$ 29,285,000
Taxable OPEB bonds	03/01/2009	3.50–6.00%	$ 6,450,000	02/01/2030	6,450,000
Total general obligation bonds payable					$ 35,735,000

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

B. Energy Lease Payable

The District entered into an energy lease agreement to finance the design, acquisition, and installation of energy conservation equipment at district facilities. The lease had an interest rate of 4.0 percent, requiring monthly payments with a final maturity of January 1, 2010. The assets acquired through the energy lease have not been capitalized as individual asset amounts do not meet the capitalization threshold requirements. This lease was repaid through the General Fund.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest
2011	$ 2,815,000	$ 1,794,366
2012	2,990,000	1,656,316
2013	3,190,000	1,509,441
2014	3,285,000	1,352,941
2015	3,415,000	1,190,641
2016–2020	15,875,000	3,226,881
2021–2025	1,755,000	993,761
2026–2030	2,410,000	445,015
	$ 35,735,000	$ 12,169,362

D. Changes in Long-Term Liabilities

	Balance – July 1, 2009	Additions	Retirements	Balance – June 30, 2010	Due Within One Year
General obligation bonds payable	$ 38,145,000	$ –	$ 2,410,000	$ 35,735,000	$ 2,815,000
Energy lease payable	38,044	–	38,044	–	–
Severance benefits payable	5,053,761	–	781,605	4,272,156	353,730
Compensated absences payable	597,525	242,520	139,231	700,814	700,814
	$ 43,834,330	$ 242,520	$ 3,368,880	$ 40,707,970	$ 3,869,544

NOTE 6 – RESERVED AND DESIGNATED FUND BALANCES

Certain portions of fund balances 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. The District's School Board has also designated portions of fund balance for specific purposes. At June 30, 2010, the District has recorded the following reservations and designations of fund balances:

	Reserved	Designated
General Fund		
Reserved for deferred maintenance	$ 89,486	$ –
Reserved for health and safety	12,969	–
Reserved for operating capital	48,472	–
Designated for separation/retirement benefits	–	1,258,590
Total General Fund	150,927	1,258,590
Nonmajor funds		
Community Service Special Revenue Fund		
Reserved for community education programs	417,437	–
Reserved for school readiness	32,901	–
Reserved for early childhood family education programs	83,230	–
Total nonmajor funds	533,568	–
Total all funds	$ 684,495	$ 1,258,590

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

Tier I

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

With these provisions:

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

Tier II

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

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

TRA publicly issues a CAFR presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296–6449 or (800) 657–3853.

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The employer contribution rate for Coordinated Plan members was 5.5 percent and 9.5 percent for Basic Plan members. Legislation passed during the 2010 session increased member and employer contribution rates by 0.5 percent annually over a four-year period beginning July 1, 2011. Total covered payroll salaries for all TRA members state-wide during fiscal years June 30, 2009, 2008, and 2007 were approximately $3.76 billion, $3.65 billion, and $3.53 billion, respectively.

The District's contributions for the years ended June 30, 2010, 2009, and 2008 were $1,611,754, $1,729,854, and $1,703,016, respectively, equal to the contractually required contributions for each year as set by state statutes.

Public Employees' Retirement Association (PERA)

A. Plan Description

All non-teacher full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF), which is a cost-sharing, multi-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 statutes, 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for Coordinated Plan members is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296–7460 or (800) 652–9026.

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2009. The contribution rate for Coordinated Plan members will increase to 6.25 percent effective January 1, 2011. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 6.75 percent for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.00 percent effective January 1, 2010 and will increase to 7.25 percent effective January 1, 2011.

The District's contributions to PERF for the years ended June 30, 2010, 2009, and 2008 were $861,771, $825,078, and $782,651, respectively, equal to the contractually required contributions for each year as set by state statutes.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS PLAN

A. Plan Description

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

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

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

Annual required contribution	$	313,931
Interest on net OPEB obligation		(244,966)
Adjustment to annual required contribution		334,196
Annual OPEB cost (expense)		403,161
Contributions made		–
Increase in net OPEB obligation		403,161
Negative net OPEB obligation – beginning of year		(5,443,682)
Negative net OPEB obligation – end of year	$	(5,040,521)

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

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

D. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $6,091,809 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $6,091,809. The covered payroll (annual payroll of active employees covered by the plan) was $34,384,669, and the ratio of the UAAL to the covered payroll was 17.7 percent.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the District's own investments; a zero percent rate of projected salary increases; an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after eight years. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2008 was 30 years.

F. Other Post-Employment Benefits Trust Fund

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

G. Membership

Membership in the plan consisted of the following as of July 1, 2008:

Retirees and beneficiaries receiving benefits	120
Active plan members	771
Total members	891

NOTE 9 – FLEXIBLE BENEFIT PLAN

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

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

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

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

NOTE 10 – HEALTHCARE REIMBURSEMENT PLAN

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

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

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

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

The District had the following interfund receivables and payables at June 30, 2010:

	Due From Other Funds	Due to Other Funds
General Fund	$ 544,117	$ –
Debt Service Fund	286,020	–
Employee benefit trust funds	–	830,137
	$ 830,137	$ 830,137

This balance represents interfund amounts due to the General Fund and Debt Service Fund relating to post-employment benefit costs to be reimbursed and to reimburse the portion of bond proceeds to be used for initial debt service costs.

NOTE 12 – OPERATING LEASES

The District has five operating bus leases for student transportation. The leases have monthly payments ranging from $3,330 to $5,575 and expire at various times through July 2013. Operating lease expenditures for the year ended June 30, 2010 were approximately $272,375.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from $10,667 to $12,367 and will expire in August 2016. Operating lease expenditures for the year ended June 30, 2010 were approximately $117,337.

Future commitments on these leases are as follows:

Year Ending June 30,	Bus Leases	Space Lease
2011	$ 219,820	$ 128,004
2012	164,760	131,844
2013	81,330	135,804
2014	5,575	139,884
2015	–	144,084
2016–2017	–	173,138
	$ 471,485	$ 852,758

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Contingencies

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

NOTE 14 – SUBSEQUENT EVENTS

In September 2010, the District issued $11,805,831 of Aid Anticipation Certificates, Series 2010B. The certificates bear an interest rate of 2.0 percent and have a final maturity date of September 1, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Other Post-Employment Benefits Plan
June 30, 2010

The following schedules present trend information about the funding progress and amounts contributed to the Other Post-Employment Benefits Plan administered by the District:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	$ 6,091,809	$ –	$ 6,091,809	– %	$ 34,384,669	17.7 %

Schedule of Employer Contributions

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

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2010

	Special Revenue Funds		
	Food Service	Community Service	Totals
Assets			
Cash and temporary investments	$ 984,948	$ 991,484	$ 1,976,432
Receivables			
Current taxes	–	456,491	456,491
Delinquent taxes	–	32,027	32,027
Accounts and interest	3,348	32,430	35,778
Due from other governmental units	59,293	236,193	295,486
Inventory	84,094	–	84,094
Prepaid items	5,710	485	6,195
Total assets	$ 1,137,393	$ 1,749,110	$ 2,886,503
Liabilities and Fund Balances			
Liabilities			
Salaries and compensated absences payable	$ 14,147	$ 119,510	$ 133,657
Accounts and contracts payable	64,351	190,964	255,315
Due to other governmental units	256	7,281	7,537
Property taxes levied for subsequent year	–	786,219	786,219
Unearned revenue	76,652	63,041	139,693
Deferred revenue – delinquent taxes	–	22,209	22,209
Total liabilities	155,406	1,189,224	1,344,630
Fund balances			
Reserved	–	533,568	533,568
Unreserved – undesignated	981,987	26,318	1,008,305
Total fund balances	981,987	559,886	1,541,873
Total liabilities and fund balances	$ 1,137,393	$ 1,749,110	$ 2,886,503

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2010

	Special Revenue Funds		
	Food Service	Community Service	Totals
Revenue			
Local sources			
Property taxes	$ –	$ 771,675	$ 771,675
Investment earnings	5,791	4,279	10,070
Other	2,406,772	2,683,967	5,090,739
State sources	174,630	488,643	663,273
Federal sources	1,134,063	–	1,134,063
Total revenue	3,721,256	3,948,564	7,669,820
Expenditures			
Current			
Food service	3,759,662	–	3,759,662
Community service	–	3,917,039	3,917,039
Capital outlay	133,859	39,452	173,311
Total expenditures	3,893,521	3,956,491	7,850,012
Net change in fund balances	(172,265)	(7,927)	(180,192)
Fund balances			
Beginning of year	1,154,252	567,813	1,722,065
End of year	$ 981,987	$ 559,886	$ 1,541,873

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Comparative Balance Sheet
as of June 30, 2010 and 2009

	2010	2009
Assets		
Cash and temporary investments	$ 8,198,777	$ 9,742,408
Receivables		
Current taxes	5,412,439	5,823,215
Delinquent taxes	468,999	409,838
Accounts and interest	280,356	139,426
Due from fiduciary funds	544,117	–
Due from other governmental units	13,816,405	4,825,293
Prepaid items	81,071	23,409
Total assets	$ 28,802,164	$ 20,963,589
Liabilities and Fund Balances		
Liabilities		
Aid anticipation certificates	$ 7,780,978	$ –
Salaries and compensated absences payable	852,755	1,189,470
Accounts and contracts payable	4,027,090	3,485,584
Accrued interest payable	124,922	–
Due to other governmental units	–	15,845
Property taxes levied for subsequent year	9,716,078	10,443,279
Unearned revenue	3,590	4,006
Deferred revenue – delinquent taxes	327,740	247,213
Total liabilities	22,833,153	15,385,397
Fund balances		
Reserved for deferred maintenance	89,486	–
Reserved for health and safety	12,969	217,909
Reserved for operating capital	48,472	763,981
Unreserved		
Designated for separation/retirement benefits	1,258,590	1,226,524
Undesignated	4,559,494	3,369,778
Total fund balances	5,969,011	5,578,192
Total liabilities and fund balances	$ 28,802,164	$ 20,963,589

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 10,426,700	$ 10,431,320	$ 4,620	$ 10,914,411
Investment earnings	250,000	54,057	(195,943)	166,628
Other	1,237,400	1,614,751	377,351	1,320,661
State sources	43,739,314	43,539,037	(200,277)	51,121,188
Federal sources	7,004,406	7,374,372	369,966	2,347,273
Total revenue	62,657,820	63,013,537	355,717	65,870,161
Expenditures				
Current				
Administration				
Salaries	2,171,911	2,156,696	(15,215)	2,356,912
Employee benefits	774,037	794,235	20,198	1,150,469
Purchased services	60,307	45,795	(14,512)	38,769
Supplies and materials	19,400	7,555	(11,845)	27,557
Other expenditures	47,398	38,631	(8,767)	40,258
Total administration	3,073,053	3,042,912	(30,141)	3,613,965
District support services				
Salaries	1,000,203	933,849	(66,354)	976,342
Employee benefits	639,115	421,566	(217,549)	645,287
Purchased services	192,650	232,206	39,556	190,163
Supplies and materials	93,340	98,681	5,341	133,470
Other expenditures	10,800	5,222	(5,578)	4,499
Total district support services	1,936,108	1,691,524	(244,584)	1,949,761
Elementary and secondary regular instruction				
Salaries	21,017,554	21,044,743	27,189	20,700,342
Employee benefits	6,030,220	6,551,448	521,228	9,488,803
Purchased services	925,549	750,446	(175,103)	776,588
Supplies and materials	788,645	676,366	(112,279)	773,927
Capital expenditures	9,401	10,530	1,129	38,373
Other expenditures	1,000	15,516	14,516	20,902
Total elementary and secondary regular instruction	28,772,369	29,049,049	276,680	31,798,935

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	650,186	619,322	(30,864)	626,742
Employee benefits	213,371	212,449	(922)	337,847
Purchased services	26,520	51,611	25,091	44,479
Supplies and materials	43,407	68,062	24,655	59,483
Capital expenditures	2,500	2,792	292	9,363
Total vocational education instruction	935,984	954,236	18,252	1,077,914
Special education instruction				
Salaries	6,702,624	6,678,197	(24,427)	6,817,412
Employee benefits	1,975,717	2,031,961	56,244	2,114,935
Purchased services	675,477	680,836	5,359	658,240
Supplies and materials	46,316	92,347	46,031	70,749
Capital expenditures	3,000	16,104	13,104	26,396
Other expenditures	3,000	4,350	1,350	3,513
Total special education instruction	9,406,134	9,503,795	97,661	9,691,245
Instructional support services				
Salaries	1,503,825	1,594,265	90,440	4,129,398
Employee benefits	453,590	469,423	15,833	1,185,278
Purchased services	122,169	77,699	(44,470)	410,383
Supplies and materials	193,574	147,925	(45,649)	139,180
Capital expenditures	100	–	(100)	1,556
Other expenditures	13,800	11,130	(2,670)	11,922
Total instructional support services	2,287,058	2,300,442	13,384	5,877,717
Pupil support services				
Salaries	4,441,852	4,160,942	(280,910)	4,305,593
Employee benefits	1,578,251	1,507,155	(71,096)	2,440,242
Purchased services	1,065,206	806,819	(258,387)	864,410
Supplies and materials	1,130,535	917,300	(213,235)	842,200
Capital expenditures	9,617	17,756	8,139	1,171
Other expenditures	1,015	42	(973)	624
Total pupil support services	8,226,476	7,410,014	(816,462)	8,454,240

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,956,175	1,764,966	(191,209)	1,912,977
Employee benefits	784,536	897,763	113,227	1,540,205
Purchased services	3,142,000	3,198,221	56,221	3,228,393
Supplies and materials	708,643	951,503	242,860	912,452
Capital expenditures	1,572,184	1,457,274	(114,910)	1,272,642
Other expenditures	47,500	66,230	18,730	70,923
Total sites and buildings	8,211,038	8,335,957	124,919	8,937,592
Fiscal and other fixed cost programs				
Purchased services	270,000	264,920	(5,080)	273,996
Debt service				
Principal	39,000	38,044	(956)	63,191
Interest and fiscal charges	600	31,825	31,225	2,899
Total debt service	39,600	69,869	30,269	66,090
Total expenditures	63,157,820	62,622,718	(535,102)	71,741,455
Excess (deficiency) of revenues over expenditures	(500,000)	390,819	890,819	(5,871,294)
Other financing sources (uses)				
Debt issued	–	–	–	6,091,809
Net change in fund balances	$ (500,000)	390,819	$ 890,819	220,515
Fund balances				
Beginning of year		5,578,192		5,357,677
End of year		$ 5,969,011		$ 5,578,192

INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2010 and 2009

	2010	2009
Assets		
Cash and temporary investments	$ 984,948	$ 1,141,478
Receivables		
Accounts and interest	3,348	3,222
Due from other governmental units	59,293	39,311
Inventory	84,094	71,615
Prepaid items	5,710	5,390
Total assets	$ 1,137,393	$ 1,261,016
Liabilities and Fund Balances		
Liabilities		
Salaries and compensated absences payable	$ 14,147	$ 17,576
Accounts and contracts payable	64,351	14,773
Due to other governmental units	256	256
Unearned revenue	76,652	74,159
Total liabilities	155,406	106,764
Fund balances		
Unreserved – undesignated	981,987	1,154,252
Total liabilities and fund balances	$ 1,137,393	$ 1,261,016

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 30,000	$ 5,791	$ (24,209)	$ 28,231
Other – primarily meal sales	2,606,723	2,406,772	(199,951)	2,541,773
State sources	169,237	174,630	5,393	178,265
Federal sources	989,951	1,134,063	144,112	1,010,182
Total revenue	3,795,911	3,721,256	(74,655)	3,758,451
Expenditures				
Current				
Salaries	1,218,400	1,487,577	269,177	1,432,072
Employee benefits	356,850	389,124	32,274	346,235
Purchased services	136,300	129,499	(6,801)	136,308
Supplies and materials	1,923,500	1,751,794	(171,706)	1,781,570
Other expenditures	4,000	1,668	(2,332)	2,116
Capital outlay	110,000	133,859	23,859	128,150
Total expenditures	3,749,050	3,893,521	144,471	3,826,451
Net change in fund balances	$ 46,861	(172,265)	$ (219,126)	(68,000)
Fund balances				
Beginning of year		1,154,252		1,222,252
End of year		$ 981,987		$ 1,154,252

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2010 and 2009

	2010	2009
Assets		
Cash and temporary investments	$ 991,484	$ 1,041,574
Receivables		
Current taxes	456,491	442,882
Delinquent taxes	32,027	24,587
Accounts and interest	32,430	37,760
Due from other governmental units	236,193	164,902
Prepaid items	485	984
Total assets	$ 1,749,110	$ 1,712,689
Liabilities and Fund Balances		
Liabilities		
Salaries and compensated absences payable	$ 119,510	$ 111,012
Accounts and contracts payable	190,964	164,116
Due to other governmental units	7,281	5,737
Property taxes levied for subsequent year	786,219	811,642
Unearned revenue	63,041	37,231
Deferred revenue – delinquent taxes	22,209	15,138
Total liabilities	1,189,224	1,144,876
Fund balances		
Reserved for community education programs	417,437	423,238
Reserved for school readiness	32,901	32,995
Reserved for early childhood family education programs	83,230	88,864
Unreserved – undesignated	26,318	22,716
Total fund balances	559,886	567,813
Total liabilities and fund balances	$ 1,749,110	$ 1,712,689

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 686,359	$ 771,675	$ 85,316	$ 618,413
Investment earnings	20,000	4,279	(15,721)	18,989
Other – primarily tuition and fees	2,656,315	2,683,967	27,652	2,996,574
State sources	474,853	488,643	13,790	556,068
Total revenue	3,837,527	3,948,564	111,037	4,190,044
Expenditures				
Current				
Salaries	2,639,347	2,593,681	(45,666)	2,777,718
Employee benefits	785,665	714,790	(70,875)	784,929
Purchased services	345,960	362,811	16,851	421,664
Supplies and materials	165,707	243,249	77,542	149,402
Other expenditures	2,050	2,508	458	1,230
Capital outlay	9,350	39,452	30,102	24,240
Total expenditures	3,948,079	3,956,491	8,412	4,159,183
Net change in fund balances	$ (110,552)	(7,927)	$ 102,625	30,861
Fund balances				
Beginning of year		567,813		536,952
End of year		$ 559,886		$ 567,813

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Balance Sheet by Account
as of June 30, 2010
(With Comparative Totals for the Year Ended June 30, 2009)

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2010	Totals 2009
Assets				
Cash and temporary investments	$ 2,880,438	$ (51,488)	$ 2,828,950	$ 3,427,479
Receivables				
Current taxes	2,323,416	309,857	2,633,273	2,108,653
Delinquent taxes	169,137	–	169,137	161,670
Due from fiduciary fund	–	286,020	286,020	–
Due from other governmental units	41,810	–	41,810	17,572
Total assets	$ 5,414,801	$ 544,389	$ 5,959,190	$ 5,715,374
Liabilities and Fund Balances				
Liabilities				
Accounts and contracts payable	$ 8,255	$ –	$ 8,255	$ –
Property taxes levied for subsequent year	4,001,775	533,889	4,535,664	3,863,851
Deferred revenue – delinquent taxes	119,482	–	119,482	99,347
Total liabilities	4,129,512	533,889	4,663,401	3,963,198
Fund balances				
Unreserved – undesignated	1,285,289	10,500	1,295,789	1,752,176
Total liabilities and fund balances	$ 5,414,801	$ 544,389	$ 5,959,190	$ 5,715,374

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Budget and Actual
Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010					2009
		Actual				
	Budget	Regular Debt Service Account	OPEB Debt Service Account	Total	Over (Under) Budget	Actual
Revenue						
Local sources						
Property taxes	$ 3,661,870	$ 3,686,554	$ –	$ 3,686,554	$ 24,684	$ 4,101,764
Investment earnings	–	10,029	–	10,029	10,029	54,652
State sources	202,000	154,851	–	154,851	(47,149)	175,712
Total revenue	3,863,870	3,851,434	–	3,851,434	(12,436)	4,332,128
Expenditures						
Debt service						
Principal	2,410,000	2,410,000	–	2,410,000	–	2,315,000
Interest	1,585,000	1,584,750	302,606	1,887,356	302,356	1,700,500
Fiscal charges and other	5,000	10,465	–	10,465	5,465	79,170
Total expenditures	4,000,000	4,005,215	302,606	4,307,821	307,821	4,094,670
Excess (deficiency) of revenue over expenditures	(136,130)	(153,781)	(302,606)	(456,387)	(320,257)	237,458
Other financing sources (uses)						
Debt issued	–	–	–	–	–	358,191
Premium on debt issued	–	–	–	–	–	27,384
Total other financing sources (uses)	–	–	–	–	–	385,575
Net change in fund balances	$ (136,130)	(153,781)	(302,606)	(456,387)	$ (320,257)	623,033
Fund balances						
Beginning of year		1,439,070	313,106	1,752,176		1,129,143
End of year		$ 1,285,289	$ 10,500	$ 1,295,789		$ 1,752,176

Employee Benefit Trust Funds
Combining Statement of Fiduciary Net Assets
as of June 30, 2010

	Health Savings Plan	Post-Employment Benefits	Totals
Assets			
Cash and short-term investments	$ 1,483,569	$ 1,053,900	$ 2,537,469
Accounts receivable	–	45,274	45,274
Investments, at fair value			
U.S. government agency securities	–	566,449	566,449
State and local bonds	–	2,572,207	2,572,207
Negotiable certificates of deposit	–	743,450	743,450
MN trust investment shares portfolio	–	1,135,828	1,135,828
Total assets	1,483,569	6,117,108	7,600,677
Liabilities			
Accounts payable	1,337,549	–	1,337,549
Due to governmental funds	–	830,137	830,137
Total liabilities	1,337,549	830,137	2,167,686
Net assets			
Held in trust for employee benefits and health savings accounts	$ 146,020	$ 5,286,971	$ 5,432,991

Employee Benefit Trust Funds
Combining Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2010

	Health Savings Plan	Post-Employment Benefits	Totals
Additions			
Contributions			
Plan members	$ 2,466	$ –	$ 2,466
Investment earnings	5,823	212,772	218,595
Total additions	8,289	212,772	221,061
Deductions			
Benefits paid to plan members	2,815	544,117	546,932
Change in net assets	5,474	(331,345)	(325,871)
Net assets			
Beginning of year	140,546	5,618,316	5,758,862
End of year	$ 146,020	$ 5,286,971	$ 5,432,991

SUPPLEMENTAL INFORMATION

(UNAUDITED)

Government-Wide Revenue by Type
Last Eight Fiscal Years

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

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

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function
Last Eight Fiscal Years

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

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

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

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2001	$ 9,991,256	$ 38,674,402	$ 1,424,879	$ 1,523,169	$ 51,613,706
	19%	75%	3%	3%	100%
2002	13,043,088	39,270,580	1,700,601	1,424,510	55,438,779
	24%	71%	3%	2%	100%
2003	6,441,448	50,121,425	1,914,548	1,561,348	60,038,769
	11%	83%	3%	3%	100%
2004	10,660,212	46,725,091	2,103,153	1,753,443	61,241,899
	17%	76%	4%	3%	100%
2005	7,331,659	49,652,412	1,792,104	1,800,101	60,576,276
	12%	82%	3%	3%	100%
2006	4,372,565	53,297,447	1,946,196	2,195,700	61,811,908
	7%	86%	3%	4%	100%
2007	8,457,227	49,617,283	2,463,213	1,858,222	62,395,945
	14%	79%	4%	3%	100%
2008	10,066,599	51,412,562	2,657,533	1,951,422	66,088,116
	15%	78%	4%	3%	100%
2009	10,914,411	51,121,188	2,347,273	1,487,289	65,870,161
	17%	78%	3%	2%	100%
2010	10,431,320	43,539,037	7,374,372	1,668,808	63,013,537
	17%	69%	12%	2%	100%

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total
2001	$ 2,364,078	$ 1,372,686	$ 25,682,886	$ 701,905	$ 6,560,146	$ 3,687,070	$ 5,639,613	$ 10,977,146	$ 371,843	$ 57,357,373
	4%	2%	45%	1%	11%	7%	10%	19%	1%	100%
2002	2,341,212	1,409,726	24,251,909	843,129	7,169,057	2,992,228	5,336,573	7,188,943	516,976	52,049,753
	4%	3%	46%	2%	14%	6%	10%	14%	1%	100%
2003	2,462,697	1,531,602	26,830,293	833,847	7,930,204	2,822,040	6,155,689	8,697,106	456,989	57,720,467
	4%	3%	46%	1%	14%	5%	11%	15%	1%	100%
2004	2,644,716	1,681,278	27,782,628	1,095,426	8,484,810	2,305,745	6,614,500	8,689,188	441,673	59,739,964
	4%	3%	47%	2%	14%	4%	11%	14%	1%	100%
2005	2,806,218	1,995,598	27,164,930	1,172,729	8,698,078	3,225,609	6,565,441	7,757,664	785,541	60,171,808
	5%	3%	46%	2%	14%	5%	11%	13%	1%	100%
2006	2,760,130	2,006,210	27,693,138	1,035,779	9,657,613	2,889,663	6,585,926	7,064,417	900,773	60,593,649
	5%	3%	46%	2%	15%	5%	11%	12%	1%	100%
2007	2,953,560	2,043,448	28,207,427	1,039,064	9,522,655	3,204,444	7,321,452	7,417,758	366,580	62,076,388
	5%	3%	45%	2%	15%	5%	12%	12%	1%	100%
2008	2,966,614	2,243,347	28,931,023	1,091,720	9,691,275	5,443,794	8,422,890	7,923,051	336,721	67,050,435
	4%	3%	43%	2%	14%	8%	13%	12%	1%	100%
2009	3,613,965	1,949,761	31,798,935	1,077,914	9,691,245	5,877,717	8,454,240	8,937,592	340,086	71,741,455
	5%	3%	44%	2%	14%	8%	12%	12%	–	100%
2010	3,042,912	1,691,524	29,049,049	954,236	9,503,795	2,300,442	7,410,014	8,335,957	334,789	62,622,718
	5%	3%	46%	2%	15%	4%	12%	13%	–	100%

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2001	$ 17,073,426	$ 441,745	$ 4,174,889	$ 21,690,060
	2002	6,324,848	576,414	4,531,983	11,433,245
	2003	7,554,679	644,184	4,566,568	12,765,431
	2004	7,611,248	604,917	4,409,613	12,625,778
	2005	7,236,750	648,212	4,239,165	12,124,127
	2006	8,306,042	677,634	4,254,284	13,237,960
	2007	9,457,159	672,044	4,278,001	14,407,204
	2008	11,427,166	646,625	4,300,748	16,374,539
	2009	11,003,562	811,642	3,863,851	15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
Tax rates					
Tax capacity rates					
	2001	47.618	1.331	12.579	61.528
	2002	5.693	1.930	15.174	22.797
	2003	7.708	2.083	14.766	24.557
	2004	7.211	1.648	12.013	20.872
	2005	4.792	1.495	9.777	16.064
	2006	3.834	1.405	8.821	14.060
	2007	3.291	1.223	7.785	12.299
	2008	6.560	1.121	7.456	15.137
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
Market value rates					
	2001	0.05100	–	–	0.05100
	2002	0.19686	–	–	0.19686
	2003	0.17319	–	–	0.17319
	2004	0.14238	–	–	0.14238
	2005	0.12735	–	–	0.12735
	2006	0.14346	–	–	0.14346
	2007	0.14980	–	–	0.14980
	2008	0.13758	–	–	0.13758
	2009	0.13385	–	–	0.13385
	2010	0.13710	–	–	0.13710

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

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values
Last Ten Fiscal Years

For Taxes	Net Tax Capacities						
				Fiscal Disparities			
Collectible	Agricultural	Non-Agricultural	Tax Increment	Contribution	Distribution	Total Taxable	Market Value
2001	$ 1,809,236	$ 30,654,392	$ (1,223,623)	$ (1,934,409)	$ 3,982,225	$ 33,287,821	$ 2,159,843,333
2002	1,593,198	25,446,860	(1,019,109)	(1,296,914)	2,391,233	27,115,268	2,346,377,545
2003	1,738,109	29,077,779	(763,880)	(1,575,164)	2,638,377	31,115,221	2,698,222,900
2004	1,940,174	34,020,370	(835,194)	(1,730,466)	2,814,992	36,209,876	3,149,668,601
2005	2,411,895	40,145,142	(1,046,493)	(2,052,670)	3,002,063	42,459,937	3,725,534,200
2006	2,481,373	45,627,433	(1,141,785)	(2,401,535)	3,206,563	47,772,049	4,217,089,550
2007	2,709,315	52,086,704	(1,411,751)	(2,644,014)	3,683,949	54,424,203	4,768,571,475
2008	2,874,655	56,154,555	(1,469,991)	(3,228,204)	4,124,028	58,455,043	5,127,128,875
2009	2,922,594	57,485,174	(1,680,233)	(3,385,987)	4,606,475	59,948,023	5,186,459,175
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891	58,146,764	4,988,746,100

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes	Original Levy				Uncollected Taxes Receivable as of June 30, 2010			
					Delinquent		Current	
Collectible	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread	Amount	Percent	Amount	Percent
2001	$ 14,680,536	$ 2,552,744	$ 4,456,780	$ 21,690,060	$ –	– %	$ –	– %
2002	9,628,173	1,172,361	632,711	11,433,245	–	–	–	–
2003	10,989,162	1,094,398	681,871	12,765,431	–	–	–	–
2004	10,857,282	1,153,214	615,282	12,625,778	11,188	0.09	–	–
2005	10,631,729	1,029,769	462,629	12,124,127	5,486	0.05	–	–
2006	11,927,070	900,660	410,230	13,237,960	23,456	0.18	–	–
2007	13,065,100	1,018,059	324,045	14,407,204	51,045	0.35	–	–
2008	14,935,081	1,087,795	351,663	16,374,539	128,463	0.78	–	–
2009	14,061,436	1,295,342	322,277	15,679,055	450,525	2.87	–	–
2010	13,330,800	1,289,782	315,671	14,936,253	–	–	8,502,203	56.92
					$ 670,163		$ 8,502,203	

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

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Adjusted Average Daily Membership (ADM)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2001	55.09	506.11	3,631.98	3,680.87	7,874.05	9,074.87
2002	52.16	440.95	3,541.16	3,719.70	7,753.97	8,987.70
2003	52.16	506.30	3,507.83	3,711.85	7,778.14	8,979.87
2004	57.64	510.03	3,390.43	3,680.34	7,638.44	8,821.44
2005	71.10	455.68	3,252.05	3,691.93	7,470.76	8,668.05
2006	68.93	441.65	3,201.44	3,682.22	7,394.24	8,591.93
2007	88.27	441.24	3,117.69	3,608.74	7,255.94	8,425.83
2008	98.84	419.61	3,043.15	3,551.31	7,112.91	8,292.99
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	107.38	416.95	2,981.27	3,279.62	6,785.22	7,885.29

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

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

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

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2001 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2010	1.250	1.000	0.612	1.115	1.060	1.300

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	$ 138,544	
National School Lunch Program	10.555	973,116	
Total child nutrition cluster			1,111,660
U.S. Department of Education			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	1,268,112	
Special Education – Preschool Grants	84.173	70,745	
ARRA – Special Education – Grants to States	84.391	775,431	
ARRA – Special Education – Preschool Grants	84.392	9,302	
Total special education cluster			2,123,590
Title I, Part A cluster			
Title I Grants to Local Educational Agencies	84.010	424,213	
ARRA – Title I Grants to Local Educational Agencies	84.389	105,159	
Total Title I, Part A cluster			529,372
Early intervention services cluster			
Special Education – Grants for Infants and Families	84.181	209,743	
ARRA – Special Education – Grants for Infants and Families	84.393	26,714	
Total early intervention services cluster			236,457
ARRA – State Fiscal Stabilization Funds – Education State Grants	84.394		4,253,245
English Language Acquisition Grants	84.365		13,057
Improving Teacher Quality State Grants	84.367		198,930
Safe and Drug-Free Schools and Communities – State Grants	84.186		22,020
Passed through Northeast Metropolitan Intermediate School District No. 916			
Career and Technical Education – Basic Grants to States	84.048		19,716
Total federal awards			$ 8,508,047

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

Note 2: Non-monetary assistance of $160,356 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

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

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

Program Title	Federal CFDA No.	Amount Provided
Independent School District No. 622, North St. Paul	84.181	$ 18,065
Independent School District No. 624, White Bear Lake	84.181	4,516
Independent School District No. 832, Mahtomedi	84.181	3,387
Independent School District No. 833, South Washington	84.181	47,421
Independent School District No. 834, Stillwater	84.181	23,711

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

(continued)

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated November 17, 2010.

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

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

November 17, 2010

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

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

Compliance

We have audited Independent School District No. 831, Forest Lake, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 C*ompliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 2010-1 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding reporting that are applicable to ARRA – State Fiscal Stabilization Funds – Education State Grants; special education cluster; Title I, Part A cluster; and early intervention services cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

(continued)

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Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified one deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

The District's responses to the findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

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

November 17, 2010

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

WITH MINNESOTA STATE LAWS AND REGULATIONS

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831, Forest Lake, Minnesota (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2010.

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

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

The results of our tests indicate that, for the items tested, the District complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs.

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

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

November 17, 2010

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

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

Financial Statements

What type of auditor's report is issued?

X Unqualified
___ Qualified
___ Adverse
___ Disclaimer

Internal control over financial reporting:

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

Federal Awards

Internal controls over major federal award programs:

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

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

___ Unqualified
X Qualified
___ Adverse
___ Disclaimer

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

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education – special education cluster consisting of:	
– Special Education – Grants to States	84.027
– ARRA – Special Education – Grants to States	84.391
– Special Education – Preschool Grants	84.173
– ARRA – Special Education – Preschool Grants	84.392
The U.S. Department of Education – Title I, Part A cluster consisting of:	
– Title I Grants to Local Educational Agencies	84.010
– ARRA – Title I Grants to Local Educational Agencies	84.389
The U.S. Department of Education – early intervention services cluster consisting of:	
– Special Education – Grants for Infants and Families	84.181
– ARRA – Special Education – Grants for Infants and Families	84.393
The U.S. Department of Education	
– ARRA – State Fiscal Stabilization Funds – Education State Grants	84.394

Threshold for distinguishing type A and B programs. $ 300,000

Does the auditee qualify as a low-risk auditee? Yes X No ___

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

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

2010-1 Internal Control Over Compliance With Federal Reporting Requirements

Criteria – Management is responsible for establishing and maintaining effective internal control over compliance with requirements applicable to federal programs, including Section 1512 of the American Recovery and Reinvestment Act (ARRA) which requires recipients to report a quarterly estimate of the number of jobs created or retained through the use of ARRA funds.

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

Questioned Costs – Not applicable.

Context – This is a current year finding.

Cause – The District submitted the first quarterly jobs data survey but did not submit the surveys for the last three quarters. The District misinterpreted the reporting requirements, and did not understand that the surveys needed to be filed each quarter instead of reporting the total jobs created and retained on the first quarterly survey.

Effect – Non-compliance with the reporting requirements could be viewed as a violation of the award agreement.

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

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

2010-1 Internal Control Over Compliance With Federal Reporting Requirements (continued)

Corrective Action Plan

Actions Planned – The District's Director of Business Services will submit the quarterly jobs data surveys to eliminate this finding in the future.

Official Responsible – Lawrence Martini, Director of Business Services.

Planned Completion Date – December 31, 2010.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – Lawrence Martini, Director of Business Services, will review procedures prior to the above planned completion date.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2010-2 Claims and Disbursements

Criteria – Minnesota Statute § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For two disbursements selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – This is a current year and prior year finding.

Cause – All general disbursement invoices are received at the District's office. A copy of the invoice is sent to the school and/or department prior to payment to ensure that the item was properly received. On occasion, there is a timing delay from when the invoice is approved for payment, and when it is sent back to the district office for payment.

Effect – Certain payments made to vendors were not paid within the timeframe as required by state statute, and the vendors were not paid interest to which they were entitled.

Recommendation – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2010-2 Claims and Disbursements (continued)

Corrective Action Plan

Actions Planned – The Business Office will review procedures and processes with all site managers that are responsible for ordering, insuring they are aware that invoices must be turned in for payment upon receipt of items ordered.

Official Responsible – Lawrence Martini, Director of Business Services.

Planned Completion Date – June 30, 2011.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – Lawrence Martini, Director of Business Services, will review disbursement check runs to assure they are being paid within the required 35-day time period.

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

No audit findings at June 30, 2009.

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2010

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 63,013,537	$ 63,013,537	$ –
Total expenditures		$ 62,622,718	$ 62,622,718	$ –
Reserved				
403	Staff development	$ –	$ –	$ –
405	Deferred maintenance	$ 89,486	$ 89,486	$ –
406	Health and safety	$ 12,969	$ 12,969	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
413	Projects funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
419	Encumbrances	$ –	$ –	$ –
423	Certain teacher programs	$ –	$ –	$ –
424	Operating capital	$ 48,472	$ 48,472	$ –
426	$25 taconite	$ –	$ –	$ –
427	Disabled accessibility	$ –	$ –	$ –
428	Learning and development	$ –	$ –	$ –
434	Area learning center	$ –	$ –	$ –
435	Contracted alternative programs	$ –	$ –	$ –
436	State approved alternative program	$ –	$ –	$ –
438	Gifted and talented	$ –	$ –	$ –
441	Basic skills programs	$ –	$ –	$ –
445	Career and technical programs	$ –	$ –	$ –
446	First grade preparedness	$ –	$ –	$ –
449	Safe schools – crime levy	$ –	$ –	$ –
450	Pre-kindergarten	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
Unreserved				
418	Designated – separation/retirement benefits	$ 1,258,590	$ 1,258,590	$ –
422	Unreserved – undesignated	$ 4,559,494	$ 4,559,494	$ –
Food Service				
Total revenue		$ 3,721,256	$ 3,721,256	$ –
Total expenditures		$ 3,893,521	$ 3,893,521	$ –
Reserved				
419	Encumbrances	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
Unreserved				
418	Designated – separation/retirement benefits	$ –	$ –	$ –
422	Unreserved – undesignated	$ 981,987	$ 981,987	$ –
Community Service				
Total revenue		$ 3,948,564	$ 3,948,564	$ –
Total expenditures		$ 3,956,491	$ 3,956,490	$ 1
Reserved				
419	Encumbrances	$ –	$ –	$ –
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ 417,437	$ 417,438	$ (1)
432	ECFE	$ 83,230	$ 83,230	$ –
444	School readiness	$ 32,901	$ 32,901	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
Unreserved				
418	Designated – separation/retirement benefits	$ –	$ –	$ –
422	Unreserved – undesignated	$ 26,318	$ 26,318	$ –
Building Construction				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Reserved				
407	Capital projects levy	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP			
419	Encumbrances	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ –	$ –	$ –

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2010

		Audit	UFARS	Audit – UFARS
Debt Service				
Total revenue		$ 3,851,434	$ 3,851,434	$ –
Total expenditures		$ 4,005,215	$ 4,005,215	$ –
Reserved				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ 1,285,289	$ 1,285,289	$ –
Trust				
Total revenue		$ 8,289	$ 8,290	$ (1)
Total expenditures		$ 2,815	$ 2,816	$ (1)
Reserved				
419	Encumbrances	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ 146,020	$ 146,020	$ –
Agency				
Unreserved				
422	Unreserved – undesignated	$ –	$ –	$ –
Internal Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Reserved				
419	Encumbrances	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ –	$ –	$ –
OPEB Revocable Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Reserved				
419	Encumbrances	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ –	$ –	$ –
OPEB Irrevocable Trust				
Total revenue		$ 212,772	$ 212,772	$ –
Total expenditures		$ 544,117	$ 544,117	$ –
Reserved				
419	Encumbrances	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ 5,286,971	$ 5,286,971	$ –
OPEB Debt Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ 302,606	$ 302,607	$ (1)
Reserved				
425	Bond refundings	$ –	$ –	$ –
Unreserved				
422	Unreserved – undesignated	$ 10,500	$ 10,500	$ –

Note 1: The District may report certain additional reserved and designated fund balances for financial reporting purposes that are reported to the Minnesota Department of Education as unreserved for purposes of this table.

Note 2: Balances listed above for "Debt Service" and "OPEB Debt Service" are combined as one Debt Service Fund for financial reporting purposes.

Unaudited Data Reporting Elements

Fiscal Year 2010 Operating Capital Transfer

Per pupil amount	$ –
Adjusted marginal cost pupil unit	–
Total transfer	$ –