

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

*Audited Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

Preliminary

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

**TABLE OF CONTENTS**

<b>BOARD OF EDUCATION AND ADMINISTRATION</b> .....	1	
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	2	
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	5	
<b>BASIC FINANCIAL STATEMENTS:</b>		
Government-Wide Financial Statements:		
Statement of Net Assets.....	22	
Statement of Activities .....	23	
Fund Financial Statements:		
Balance Sheet – Governmental Funds.....	24	
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds .....	25	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	26	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	27	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund .....	28	
Statement of Fiduciary Net Assets .....	29	
Statement of Changes in Fiduciary Net Assets .....	29	
Notes to the Financial Statements .....	31	
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>		
Schedule of Funding Progress – Other Post Employment Benefits .....	62	
Schedule of Employer Contributions – Other Post Employment Benefits .....	62	
<b>SUPPLEMENTARY INFORMATION:</b>		
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Detail – General Fund .....	64	
Combining Balance Sheet – Nonmajor Governmental Funds.....	67	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	68	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Food Service Fund .....	69	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Community Service Fund .....	70	
Schedule of Expenditures of Federal Awards .....	71	
Notes to the Schedule of Expenditures of Federal Awards .....	72	
<b>OTHER DISTRICT INFORMATION:</b>		
Deferred Tax Levies .....	74	
Property Tax Levies, Rates and Valuations.....	75	
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> .....		77

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

**TABLE OF CONTENTS**

<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i> .....</b>	<b>79</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i> .....</b>	<b>81</b>
<b>REPORT ON LEGAL COMPLIANCE.....</b>	<b>87</b>
<b>SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON LEGAL COMPLIANCE .....</b>	<b>88</b>
<b>UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE.....</b>	<b>89</b>

Preliminary

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

**BOARD OF EDUCATION AND ADMINISTRATION  
For the Year Ended June 30, 2010**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dave Wilson	Chairperson	December 31, 2013
Sue Lee	Vice Chairperson	December 31, 2011
Melissa Brings	Clerk	December 31, 2011
Jeff Mattson	Acting Clerk/Treasurer	December 31, 2013
Doug Olson	Treasurer	December 31, 2013
Patti Pokorney	Director	December 31, 2011
Rolf Mohwinkel	Director	December 31, 2011
<u>Administration</u>		
James Bauck	Superintendent	
Chuck Klaassen	Director of Finance and Operations	
Tina Burkholder	Controller	



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## INDEPENDENT AUDITOR'S REPORT

October 18, 2010

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 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 has been derived from the District's 2009 financial statements and, in our report dated October 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2010, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. 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.



In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits and Schedule of Employer Contributions – Other Post Employment Benefits on page 62, 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The accompanying supplementary information identified in the Table of Contents, and the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, to the financial statements as a whole.

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

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Preliminary

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is a new element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2009-2010) and the prior year (2008-2009) is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2009-2010 fiscal year include the following:

- The District's total combined net assets increased over 9.24% over the course of the year and were \$ 25.7 million at June 30, 2010.
- During the year, the District's expenses were \$ 62.4 million and its revenues were \$ 64.6 million.
- The General Fund reported an unreserved/undesignated fund balance this year of \$ 6.1 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

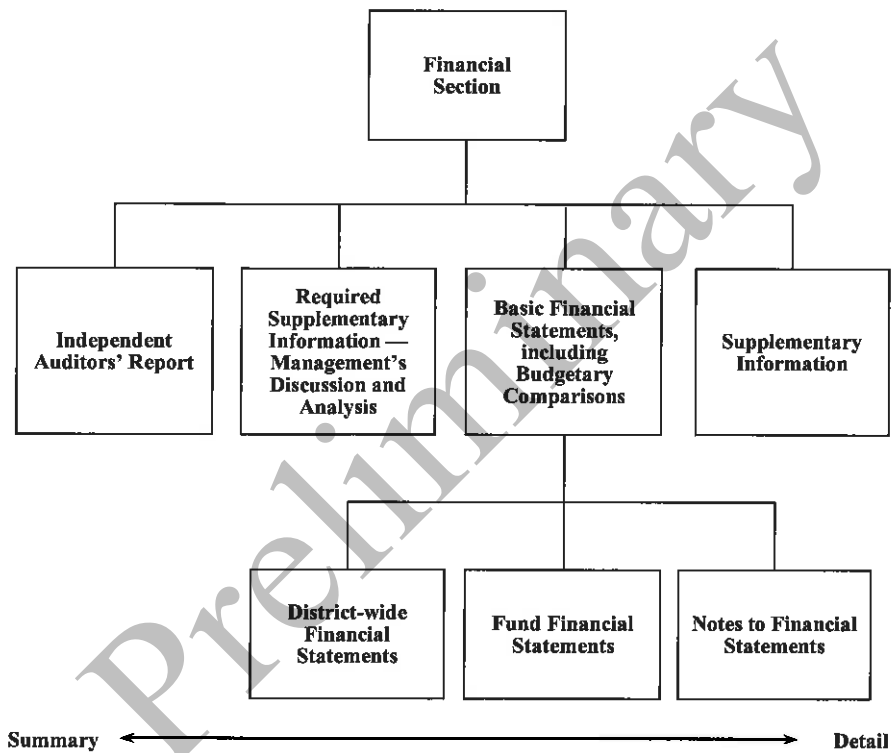


**INDEPENDENT SCHOOL DISTRICT NO. 877  
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

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

**Figure A-1  
Annual Financial Report**



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

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

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

**District-wide Statements**

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

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

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

**Fund Financial Statements**

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has one type of fund:

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Assets**

The District's consolidated net assets increased 9.24% and were \$ 25,772,685 on June 30, 2010 (See Table A-1). The District's current assets increased 8.58% and current liabilities increased 8.40% after the School Board approved the \$ 10.845 million Other Post Employment Benefits (OPEB) bond in August 2009 and created an irrevocable trust with Bremer Bank to pay for the OPEB.

The restricted net assets decreased mainly from the alternate facility transfer into debt service which lowered the property tax levy revenue through debt excess. The Minnesota Department of Education also removed the severance reserve fund balance from the reporting requirements. The unrestricted net assets increased due to the change in net assets.

**Table A-1**  
**The District's Net Assets**

	Governmental Activities		Percentage Change
	2010	2009	
Current and Other Assets	\$ 28,280,412	\$ 27,694,688	2.11%
Capital and Non-Current Assets	88,524,538	79,876,340	10.83%
<b>Total Assets</b>	<b>\$ 116,804,950</b>	<b>\$ 107,571,028</b>	<b>8.58%</b>
Current Liabilities	20,500,317	20,424,165	0.37%
Long-Term Liabilities	70,531,948	63,554,723	10.98%
<b>Total Liabilities</b>	<b>\$ 91,032,265</b>	<b>\$ 83,978,888</b>	<b>8.40%</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	15,030,130	13,890,856	8.20%
Restricted	1,327,127	2,850,777	-53.45%
Unrestricted	9,415,428	6,850,507	37.44%
<b>Total Net Assets</b>	<b>\$ 25,772,685</b>	<b>\$ 23,592,140</b>	<b>9.24%</b>

**Change in Net Assets**

The net change in assets for 2009-2010 was \$ 2,180,545 based on total revenues of \$ 64.6 million and total expenses of \$ 62.4 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**Table A-2**  
**Change in Net Assets**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2010</u>	<u>2009</u>	
<b>REVENUES:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$ 4,364,073	\$ 4,481,719	-2.63%
Operating Grants and Contributions	11,247,544	9,317,332	20.72%
Capital Grants and Contributions	1,311,695	1,671,105	-21.51%
<b>General Revenues:</b>			
Property Taxes	12,601,519	12,789,803	-1.47%
Unrestricted State Aid	30,767,401	34,630,791	-11.16%
Investment Earnings	60,640	325,017	-81.34%
Other	4,222,713	1,452,167	190.79%
Income from Joint Venture	45,475	967,000	-95.30%
Gain on Sale of Capital Assets	400	143,473	-99.72%
Total Revenues	<u>64,621,460</u>	<u>65,778,407</u>	-1.76%
<b>EXPENSES:</b>			
Administration	1,629,308	1,626,667	0.16%
District Support Services	1,349,016	1,287,170	4.80%
Regular Instruction	27,971,705	28,792,353	-2.85%
Vocational Education Instruction	1,491,393	1,507,534	-1.07%
Special Education Instruction	8,850,609	8,569,623	3.28%
Instructional Support Services	2,912,959	2,940,957	-0.95%
Pupil Support Services	4,528,727	4,351,552	4.07%
Sites and Buildings	4,929,680	4,845,993	1.73%
Fiscal and Other Fixed Cost Programs	180,096	333,493	-46.00%
Food Service	2,725,448	2,882,701	-5.46%
Community Service	2,780,664	2,904,021	-4.25%
Interest and Fiscal Charges on Long-term Liabilities	<u>3,091,310</u>	<u>3,268,834</u>	-5.43%
Total Expenses	62,440,915	63,310,898	-1.37%
<b>CHANGE IN NET ASSETS:</b>			
	2,180,545	2,467,509	-11.63%
Beginning Net Assets	<u>23,592,140</u>	<u>21,124,631</u>	11.68%
Ending Net Assets	<u>\$ 25,772,685</u>	<u>\$ 23,592,140</u>	9.24%

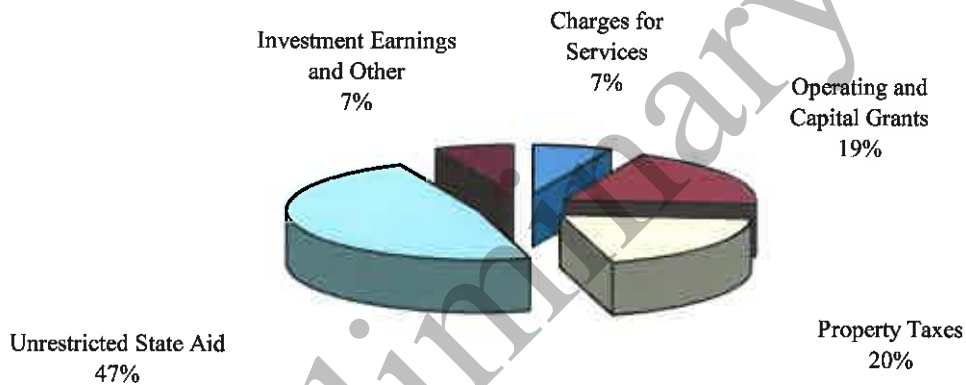
**INDEPENDENT SCHOOL DISTRICT NO. 877  
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

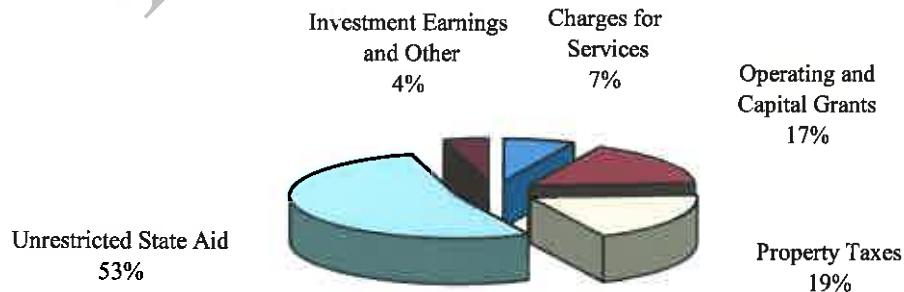
**Revenues**

The District's total revenues were approximately \$ 64.6 million for the year ended June 30, 2010. Property taxes and state formula aid accounted for 67% of total revenue for the year (See Figure A-3). Another 7% came from other general revenues combined with investment earnings, and the remaining 26% from program revenues.

**Figure A-3  
Sources of District's Revenues for Fiscal 2010**



**Sources of District's Revenues for Fiscal 2009**

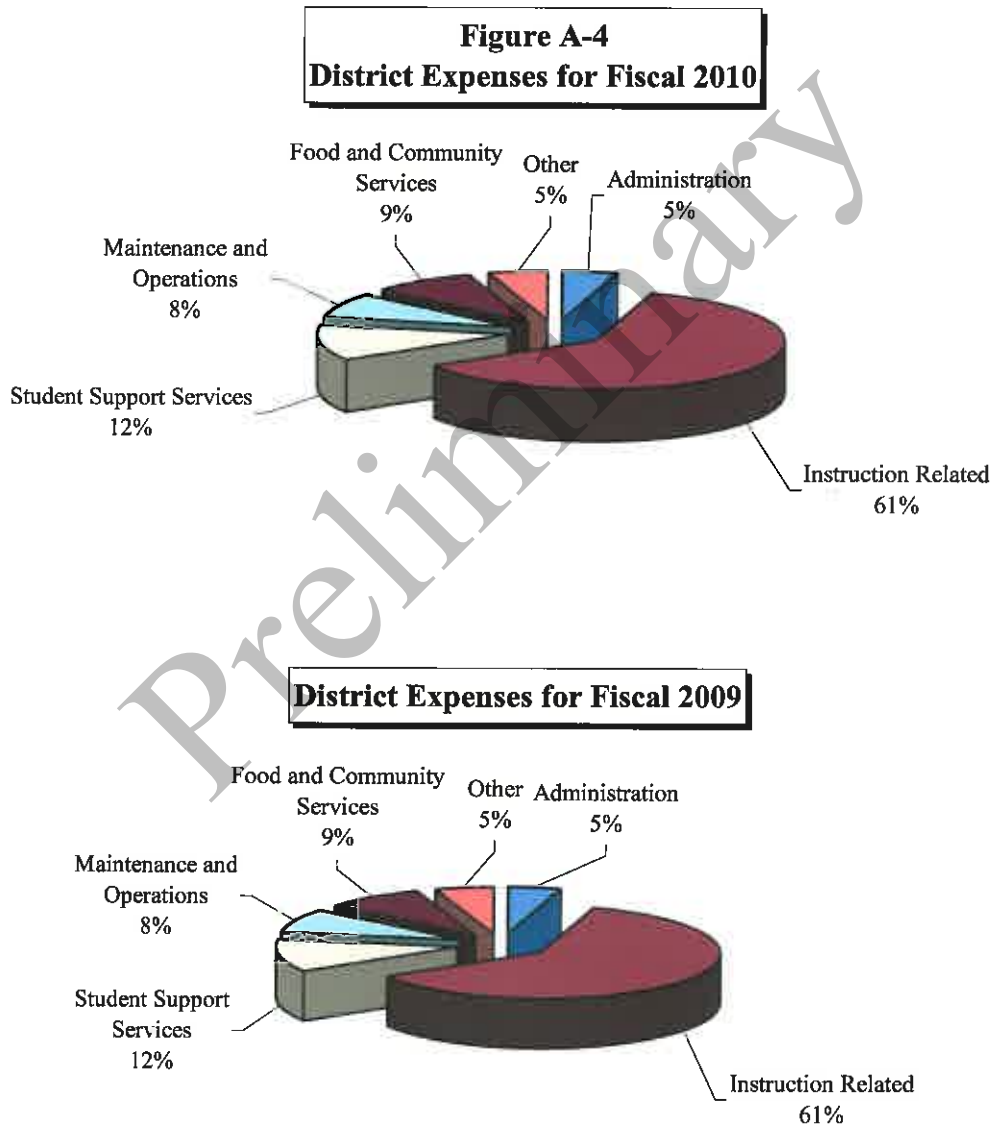


**INDEPENDENT SCHOOL DISTRICT NO. 877  
Buffalo-Hanover-Montrose, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

**Expenses**

The total cost of all programs and services decreased 1.37% to \$ 62,440,915. The District's expenses are predominantly related to educating, caring for and transporting students. The administrative expenses of the District accounted for 5% of total costs for the past two fiscal years (see Figure A-4).



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**Governmental Activities**

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

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Some of the cost was paid by the users of the District's program revenue of \$ 4,364,073. The federal and state governments subsidized certain programs with grants and contributions (\$ 11,247,544 for operating purposes and \$ 1,311,695 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of \$ 47,698,148. The remaining portion of governmental activities was paid for with \$ 12,601,519 in property taxes, \$ 30,767,401 of state aid based on the state wide education aid formula and \$ 4,329,228 with investment earnings and other general revenues.

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

	Total Cost of Services			Net Cost of Services		
	2010	2009	Percentage Change	2010	2009	Percentage Change
Administration	\$ 1,629,308	\$ 1,626,667	0.16%	\$ 1,629,308	\$ 1,626,667	0.16%
District Support Services	1,349,016	1,287,170	4.80%	1,333,419	1,276,261	4.48%
Regular Instruction	27,971,705	28,792,353	-2.85%	23,887,435	24,844,067	-3.85%
Vocational Education						
Instruction	1,491,393	1,507,534	-1.07%	1,491,393	1,507,534	-1.07%
Special Education						
Instruction	8,850,609	8,569,623	3.28%	2,022,513	3,212,742	-37.05%
Instructional Support						
Services	2,912,959	2,940,957	-0.95%	2,915,571	2,938,553	-0.78%
Pupil Support Services	4,528,727	4,351,552	4.07%	4,257,477	4,071,815	4.56%
Sites and Buildings	4,929,680	4,845,993	1.73%	4,084,897	4,015,576	1.73%
Fiscal and Other Fixed						
Cost Programs	180,096	333,493	-46.00%	177,765	204,233	-12.96%
Food Service	2,725,448	2,882,701	-5.46%	(30,559)	186,397	-116.39%
Community Service	2,780,664	2,904,021	-4.25%	657,074	688,063	-4.50%
Interest and Fiscal Charges						
on Long-term Liabilities	3,091,310	3,268,834	-5.43%	3,091,310	3,268,834	-5.43%
Total	<u>\$ 62,440,915</u>	<u>\$ 63,310,898</u>	-1.37%	<u>\$ 45,517,603</u>	<u>\$ 47,840,742</u>	-4.86%



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$ 13,530,137.

Revenues for the District's governmental funds were \$ 64,551,645 while total expenditures were \$ 75,789,911. As a result, the District completed the year with a net change in fund balance of (\$ 11,238,266). However, the OPEB bond and Montrose Early Childhood Center capital lease proceeds of \$ 12,061,024 help offset the change in fund balance.

**GENERAL FUND**

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

The following schedule presents a summary of General Fund revenues.

<b>Table A-4</b>				
<b>General Fund Revenues</b>				
	Year Ended		Change	
	June 30, 2010	June 30, 2009	Increase (Decrease)	Percent
Property Taxes	\$ 5,751,245	\$ 5,616,670	\$ 134,575	2.40%
Other Local and County Revenues	1,895,372	2,294,579	(399,207)	-17.40%
State Sources	38,950,416	42,048,119	(3,097,703)	-7.37%
Federal Sources	5,711,279	1,756,777	3,954,502	225.10%
Sales and Other Conversion of Assets	34,705	166,695	(131,990)	-79.18%
<b>Total Revenue</b>	<b>\$ 52,343,017</b>	<b>\$ 51,882,840</b>	<b>\$ 460,177</b>	<b>0.89%</b>

Total General Fund revenue increased by \$ 460,177, or 0.89%, from the previous year. Revenue from state sources decreased \$ 3,097,703 from the 2008-2009 fiscal year whereas the revenue from federal sources increased \$ 3,954,502 due to how the Minnesota Department of Education was classifying the stabilization funds that replaced part of the general education aid formula. School districts also received additional special education and Title I stimulus federal funds. Under other local and county revenues, the District received over \$ 200,000 from a one time Microsoft® settlement in the prior year and realized \$ 200,000 less in activity revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

The following schedule presents a summary of General Fund expenditures.

<b>Table A-5</b>				
<b>General Fund Expenditures</b>				
	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Salaries	\$ 28,408,337	\$ 28,841,636	\$ (433,299)	-1.50%
Employee Benefits	19,199,037	9,124,823	10,074,214	110.40%
Purchased Services	7,756,533	7,762,849	(6,316)	-0.08%
Supplies and Materials	2,168,996	2,470,304	(301,308)	-12.20%
Capital Expenditures	3,206,814	1,965,089	1,241,725	63.19%
Other Expenditures	406,002	279,481	126,521	45.27%
<b>Total Expenditures</b>	<b>\$ 61,145,719</b>	<b>\$ 50,444,182</b>	<b>\$ 10,701,537</b>	<b>21.21%</b>

Total General Fund expenditures increased \$ 10,701,537, or 21.21%, from the previous year. Earlier in the school year, the District approved a \$ 10.845 million OPEB bond. The General Fund's contribution of the OPEB bond was \$ 9,712,137 and is the reason for the increase in expenditures. The District also issued a capital lease of \$ 1,324,474 to fund building repairs. Without the OPEB bond and capital lease expenditures, the General Fund's expenditures would have decreased \$ 355,074, or 0.66%, from the previous year. The District maintained its expenditures for the 2009-2010 school year with the second round of budget reductions and the district-wide wage freeze.

In the 2009-2010 school year, General Fund revenues and other financing sources exceeded expenditures by \$ 2,280,159. As a result, the total fund balance at June 30, 2010 increased to \$ 11,216,560 of which \$ 5,118,038 is reserved or designated. The undesignated-unreserved fund balance increased from the prior year, ending at a balance of \$ 6,151,513 at June 30, 2010, or 10.06% of expenditures. The District closely monitors its fund balance.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**General Budgetary Highlights**

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

- Change in salaries from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Change in employee benefits due to issuing OPEB bonds and contributing the proceeds to a trust fund.
- Changes in revenue entitlements from state aid proration and enrollment changes in weighted average daily membership (WADM).

While the District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures by more than \$ 1,326,150, the actual results for the year show \$ 2,280,159 excess revenue and other financing sources over expenditures. Revenues were over the District's final budget by 0.06% whereas expenditures were over budget by 0.66%.

- Actual revenues were slightly more than expected by \$ 31,869 and right on target. The District received more state special education aid than anticipated which was offset by recognizing less special education stimulus dollars in 2009-2010.
- Actual expenditures were \$ 401,834 over budget due to capital lease related expenditures that were not budgeted. Without the effects of these lease expenditures, actual expenditures were \$ 922,640 under budget. Through lower fuel and utility prices and conservation, utility expenditures and transportation fuel costs came in under budget by more than \$ 240,335. Additional savings were realized under lower special education tuition bills. The District also has budgeted in 2010 funds for the Buffalo Community Middle School tennis court renovation that will take place in 2011. Additionally, the District has \$ 341,200 of federal stimulus funds carrying over to the following year.

**CAPITAL PROJECTS AND DEBT SERVICE FUNDS**

The Capital Projects expenditures exceeded revenue by \$ 1,098,097, spending the prior year fund balance to close out the fund as of June 30, 2010.

The Debt Service Fund expenditures exceeded revenue by \$ 456,401 in fiscal year 2009-2010. The remaining fund balance of \$ 1,933,058 at June 30, 2010 is available for meeting future debt service obligations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**OTHER NONMAJOR FUNDS**

The Food Service Fund revenues and other financing sources exceeded expenditures by \$ 64,348, due to more meals served in general and under free and reduced reimbursement plans, increasing its fund balance to \$ 102,670.

The Community Service Fund revenues and other financing sources exceeded expenditures by \$ 33,149 and increased its fund balance to \$ 277,849 at June 30, 2010, of which \$ 277,841 is restricted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2010, the District had invested approximately \$ 113.8 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices, (see Table A-6). This amount represents a net decrease of \$ 826,642, or 1.05% from last year. Total depreciation expense for the year was approximately \$ 3.6 million. More detailed information about capital assets can be found in Note 4 to the financial statements.

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

	2010	2009	Percentage Change
Land	\$ 4,224,158	\$ 4,224,158	0.00%
Construction in Progress	-	149,532	-100.00%
Land Improvements	2,925,161	2,538,825	15.22%
Buildings and Improvements	101,706,606	99,430,928	2.29%
Equipment and Transportation Vehicles	4,962,714	4,745,823	4.57%
Total Historical Cost	113,818,639	111,089,266	2.46%
Less Accumulated Depreciation	(35,735,941)	(32,179,926)	11.05%
Total	<u>\$ 78,082,698</u>	<u>\$ 78,909,340</u>	-1.05%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

**Construction – Next Five Years**

Currently, the District is remodeling a section of the high school with special education stimulus funds. The project will be completed during the 2010-2011 school year for the Transition Disabled Program.

An alternate facility project and middle school tennis court renovation are foreseen in the next two years. The alternate facility project is the final ventilation project at Parkside Elementary and estimated to cost \$ 3.1 million. The District is looking to partner with the City of Buffalo on the \$ 500,000 tennis court renovation at the middle school.

**Long-Term Debt**

At year-end, the District had \$ 73,793,298 in general obligation (G.O.) bonds and capital leases, an increase of 11.63% from last year as shown in Table A-7. The District also had \$ 997,771 in future post employment severance benefits payable at June 30, 2010. The School Board has designated \$ 3,474,913 for payment of future post employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

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

	2010	2009	Percentage Change
G.O. Bonds	\$ 71,225,000	\$ 64,560,000	10.32%
Net Bond Premium and Discount	438,721	588,886	-25.50%
Net G.O. Bonds	71,663,721	65,148,886	10.00%
Obligations Under Capital Leases	2,129,577	967,695	120.07%
Net G.O. Bonds and Capital Leases	73,793,298	66,116,581	11.61%
Severance Payable	997,771	1,172,832	-14.93%
Compensated Absences Payable	340,550	92,790	267.01%
OPEB Payable	-	697,172	-100.00%
<b>Total</b>	<b>\$ 75,171,071</b>	<b>\$ 68,079,375</b>	<b>10.42%</b>

**Bond Ratings**

The District's G.O. bonds carry an MSDE enhanced rating of Aa2 according to the most recent Moody's Investor Service Rating.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2010**

**Limitations on Debt**

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

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

During the 2009 State Legislative session, the basic general education formula was frozen for the next two years. In addition, part of the 2009-2010 basic general education formula was back-filled with federal stabilization dollars. The state's revenue projections continue to project a deficit in the state's budget. Operating referendum of \$ 379 per pupil is set to expire in 2012 and recently renewed the \$ 110 per pupil operating referendum in 2009. Both existing referendums plus new operating referendum funds are needed if school districts continue to receive flat, or decreased, funding from the state. All of this suggests the need for conservative budgeting practices.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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Preliminary

Preliminary

**BASIC FINANCIAL STATEMENTS**



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

**STATEMENT OF NET ASSETS**  
**June 30, 2010**  
**(With Comparative Totals as of June 30, 2009)**

	Governmental Activities	
	2010	2009
<b>ASSETS:</b>		
Cash and Investments	\$ 7,641,017	\$ 13,209,564
Current Property Taxes Receivable	7,359,922	7,317,674
Delinquent Property Taxes Receivable	327,974	304,034
Accounts Receivable	153,296	467,901
Interest Receivable	-	46,906
Due from Department of Education	10,723,941	4,445,749
Due from Federal Government through Department of Education	1,209,452	1,063,648
Due from Other Minnesota School Districts	73,230	108,944
Due from Other Governmental Units	389,539	347,296
Inventory	163,044	201,953
Prepaid Items	238,997	181,019
Equity Interest in Joint Venture	1,012,475	967,000
Net OPEB Asset	9,429,365	-
Capital Assets not being Depreciated:		
Land	4,224,158	4,224,158
Capital Assets, Net of Accumulated Depreciation:		
Construction in Progress	-	149,532
Land Improvements	1,173,402	932,953
Buildings	70,709,141	71,461,412
Machinery and Equipment	1,975,997	2,141,285
	<b>\$ 116,804,950</b>	<b>\$ 107,571,028</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ 589,916	\$ 937,904
Salaries and Benefits Payable	817,439	910,081
Interest Payable	1,478,345	1,259,223
Due to Other Minnesota School Districts	248,874	319,920
Due to Other Governmental Units	131,601	76,798
Unearned Revenue	71,377	76,007
Property Taxes Levied for Subsequent Year's Expenditures	12,523,642	12,319,580
Bond Payable, Net:		
Payable Within One Year	4,032,544	4,225,886
Payable After One Year	67,631,177	60,923,000
Capital Lease Payable:		
Payable Within One Year	226,577	162,591
Payable After One Year	1,903,000	805,104
Compensated Absences Payable:		
Payable Within One Year	340,550	92,790
Severance Payable:		
Payable Within One Year	39,452	43,385
Payable After One Year	997,771	1,129,447
OPEB Obligation:		
Payable Within One Year	-	697,172
Total Liabilities	91,032,265	83,978,888
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	15,030,130	13,890,856
Restricted for:		
Debt Service	653,923	1,304,631
Other Purposes	673,204	1,546,146
Unrestricted	9,415,428	6,850,507
Total Net Assets	25,772,685	23,592,140
	<b>\$ 116,804,950</b>	<b>\$ 107,571,028</b>

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

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

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010  
(With Comparative Totals for the Year Ended June 30, 2009)

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2010	2009
<b>Governmental Activities:</b>						
Administration	\$ 1,629,308	\$ -	\$ -	\$ -	\$ (1,629,308)	\$ (1,626,667)
District Support Services	1,349,016	15,597	-	-	(1,333,419)	(1,276,261)
Elementary and Secondary Regular Instruction	27,971,705	471,540	3,124,484	488,246	(23,887,435)	(24,844,067)
Vocational Education Instruction	1,491,393	-	-	-	(1,491,393)	(1,507,534)
Special Education Instruction	8,850,609	360,165	6,467,931	-	(2,022,513)	(3,212,742)
Instructional Support Services	2,912,959	(2,612)	-	-	(2,915,571)	(2,938,553)
Pupil Support Services	4,528,727	98,400	172,850	-	(4,257,477)	(4,071,815)
Sites and Buildings	4,929,680	21,334	-	823,449	(4,084,897)	(4,015,576)
Fiscal and Other Fixed Cost Programs	180,096	2,331	-	-	(177,765)	(204,233)
Food Service	2,725,448	1,702,659	1,053,348	-	30,559	(186,397)
Community Education and Services	2,780,664	1,694,659	428,931	-	(657,074)	(688,063)
Interest and Fiscal Charges on Long-Term Debt	3,091,310	-	-	-	(3,091,310)	(3,268,834)
<b>Total Governmental Activities</b>	<b>\$ 62,440,915</b>	<b>\$ 4,364,073</b>	<b>\$ 11,247,544</b>	<b>\$ 1,311,695</b>	<b>(45,517,603)</b>	<b>(47,840,742)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property Taxes, Levied for General Purposes					5,766,124	5,639,847
Property Taxes, Levied for Community Service					540,006	452,810
Property Taxes, Levied for Debt Service					6,295,389	6,697,146
State Aid-Formula Grants					30,767,401	34,630,791
Other General Revenues					4,222,713	1,452,167
Investment Income					60,640	325,017
Net Income from Joint Venture					45,475	967,000
Gain on Sale of Capital Assets					400	143,473
<b>Total General Revenues</b>					<b>47,698,148</b>	<b>50,308,251</b>
Change in Net Assets					2,180,545	2,467,509
Net Assets - Beginning					23,592,140	21,124,631
<b>Net Assets - Ending</b>					<b>\$ 25,772,685</b>	<b>\$ 23,592,140</b>

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

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

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2010**

**(With Comparative Totals as of June 30, 2009)**

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds 2010</u>	<u>2009</u>
<b>ASSETS:</b>					
Cash and Investments	\$ 2,391,656	\$ 4,443,805	\$ 805,556	\$ 7,641,017	\$ 13,209,564
Current Property Taxes Receivable	3,131,444	3,431,310	797,168	7,359,922	7,317,674
Delinquent Property Taxes Receivable	142,038	172,592	13,344	327,974	304,034
Accounts Receivable	153,296	-	-	153,296	467,901
Interest Receivable	-	-	-	-	46,906
Due from Department of Education	10,501,362	93,680	128,899	10,723,941	4,445,749
Due from Federal Government					
through Department of Education	1,172,997	-	36,455	1,209,452	1,063,648
Due from Other Minnesota School Districts	15,437	-	57,793	73,230	108,944
Due from Other Governmental Units	389,054	-	485	389,539	347,296
Due from Other Funds	-	-	-	-	25,406
Inventory	93,727	-	69,317	163,044	201,953
Prepaid Items	192,063	-	46,934	238,997	181,019
<b>Total Assets</b>	<b><u>\$ 18,183,074</u></b>	<b><u>\$ 8,141,387</u></b>	<b><u>\$ 1,955,951</u></b>	<b><u>\$ 28,280,412</u></b>	<b><u>\$ 27,720,094</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 560,952	\$ -	\$ 28,964	\$ 589,916	\$ 937,904
Salaries and Benefits Payable	749,501	-	67,938	817,439	910,081
Due to Other Minnesota School Districts	248,874	-	-	248,874	319,920
Due to Other Governmental Units	131,601	-	-	131,601	76,798
Due to Other Funds	-	-	-	-	25,406
Deferred Revenue	152,088	172,592	74,671	399,351	380,041
Property Taxes Levied for Subsequent Year's Expenditures	5,084,924	6,035,737	1,402,981	12,523,642	12,319,580
Severance Payable	38,574	-	878	39,452	43,385
<b>Total Liabilities</b>	<b><u>6,966,514</u></b>	<b><u>6,208,329</u></b>	<b><u>1,575,432</u></b>	<b><u>14,750,275</u></b>	<b><u>15,013,115</u></b>
<b>Fund Balances:</b>					
Reserved	279,341	-	277,841	557,182	1,484,224
Unreserved:					
Major Funds	10,937,219	1,933,058	-	12,870,277	10,073,786
Nonmajor Special Revenue Funds	-	-	102,678	102,678	50,872
Nonmajor Capital Projects Funds	-	-	-	-	1,098,097
<b>Total Fund Balances</b>	<b><u>11,216,560</u></b>	<b><u>1,933,058</u></b>	<b><u>380,519</u></b>	<b><u>13,530,137</u></b>	<b><u>12,706,979</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 18,183,074</u></b>	<b><u>\$ 8,141,387</u></b>	<b><u>\$ 1,955,951</u></b>	<b><u>\$ 28,280,412</u></b>	<b><u>\$ 27,720,094</u></b>

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

**RECONCILIATION OF THE BALANCE SHEET TO**  
**THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**  
**June 30, 2010**  
**(With Comparative Totals as of June 30, 2009)**

	2010	2009
Total Fund Balances - Governmental Funds	\$ 13,530,137	\$ 12,706,979
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	113,818,639	111,089,266
Less Accumulated Depreciation	(35,735,941)	(32,179,926)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.		
Equity Interest in Joint Venture - Wright Technical Center	1,012,475	967,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond Principal Payable	(71,225,000)	(64,560,000)
Net (Premium) Discount on Bonds Payable	(438,721)	(588,886)
Capital Lease Payable	(2,129,577)	(967,695)
Compensated Absences Payable	(340,550)	(92,790)
Severance Payable	(997,771)	(1,129,447)
OPEB Payable	-	(697,172)
Net OPEB asset created through treatment of G.O.		
Taxable OPEB Bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.	9,429,365	-
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	327,974	304,034
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.		
	(1,478,345)	(1,259,223)
Total Net Assets - Governmental Activities	\$ 25,772,685	\$ 23,592,140

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

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010  
(With Comparative Totals for the Year Ended June 30, 2009)**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds	
				2010	2009
<b>REVENUES:</b>					
Local Property Taxes	\$ 5,751,245	\$ 6,288,622	\$ 537,712	\$ 12,577,579	\$ 12,751,364
Other Local and County Revenues	1,895,372	19,965	1,800,819	3,716,156	4,349,535
Revenue from State Sources	38,950,416	346,963	575,033	39,872,412	43,023,986
Revenue from Federal Sources	5,711,279	-	936,855	6,648,134	2,595,242
Sales and Other Conversion of Assets	34,705	-	1,702,659	1,737,364	1,909,368
<b>Total Revenues</b>	<b>52,343,017</b>	<b>6,655,550</b>	<b>5,553,078</b>	<b>64,551,645</b>	<b>64,629,495</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
Administration	1,889,825	-	-	1,889,825	1,595,240
District Support Services	1,418,031	-	-	1,418,031	1,190,288
Elementary and Secondary Regular Instruction	29,565,134	-	-	29,565,134	24,631,882
Vocational Education Instruction	1,666,751	-	-	1,666,751	1,475,971
Special Education Instruction	10,619,368	-	-	10,619,368	8,283,137
Instructional Support Services	2,886,636	-	-	2,886,636	2,501,043
Pupil Support Services	4,713,291	-	-	4,713,291	4,333,368
Sites and Buildings	4,999,773	-	34,066	5,033,839	4,270,382
Fiscal and Other Fixed Cost Programs	180,096	-	-	180,096	333,493
Food Service	-	-	3,032,051	3,032,051	2,712,424
Community Education and Services	-	-	3,379,867	3,379,867	2,829,317
<b>Capital Outlay:</b>					
Administration	3,958	-	-	3,958	10,758
District Support Services	7,959	-	-	7,959	18,601
Elementary and Secondary Regular Instruction	384,319	-	-	384,319	307,774
Vocational Education Instruction	22,530	-	-	22,530	13,623
Special Education Instruction	105,875	-	-	105,875	37,246
Instructional Support Services	582,025	-	-	582,025	564,964
Pupil Support Services	2,399	-	-	2,399	532
Sites and Buildings	2,097,749	-	1,065,037	3,162,786	4,228,548
Food Service	-	-	14,135	14,135	75,676
Community Education and Services	-	-	7,085	7,085	28,272
<b>Debt Service:</b>					
Principal	-	4,180,000	-	4,180,000	3,795,000
Interest and Fiscal Charges	-	2,931,951	-	2,931,951	3,127,435
<b>Total Expenditures</b>	<b>61,145,719</b>	<b>7,111,951</b>	<b>7,532,241</b>	<b>75,789,911</b>	<b>66,364,974</b>
<b>Excess of Revenues Under Expenditures</b>	<b>(8,802,702)</b>	<b>(456,401)</b>	<b>(1,979,163)</b>	<b>(11,238,266)</b>	<b>(1,735,479)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from Sale of Capital Assets	-	-	400	400	143,473
Bond Issuance	9,866,837	-	978,163	10,845,000	20,340,000
Bond Premium	-	-	-	-	497,006
Bond Discount	(108,450)	-	-	(108,450)	-
Proceeds from Capital Leases	1,324,474	-	-	1,324,474	(20,805,000)
Transfers In	-	-	-	-	833,546
Transfers Out	-	-	-	-	(833,546)
<b>Total Other Financing Sources (Uses)</b>	<b>11,082,861</b>	<b>-</b>	<b>978,563</b>	<b>12,061,424</b>	<b>175,479</b>
<b>Net Change in Fund Balances</b>	<b>2,280,159</b>	<b>(456,401)</b>	<b>(1,000,600)</b>	<b>823,158</b>	<b>(1,560,000)</b>
<b>FUND BALANCES:</b>					
Beginning of Year	8,936,401	2,389,459	1,381,119	12,706,979	14,266,979
End of Year	<u>\$ 11,216,560</u>	<u>\$ 1,933,058</u>	<u>\$ 380,519</u>	<u>\$ 13,530,137</u>	<u>\$ 12,706,979</u>

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

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

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO  
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2010**  
**(With Comparative Totals for the Year Ended June 30, 2009)**

	2010	2009
Net Change in Fund Balances - Total Governmental Funds	\$ 823,158	\$ (1,560,000)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlays	2,749,938	4,161,857
Depreciation Expense	(3,576,580)	(3,455,029)
Loss on Disposal	-	(83,544)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.		
	45,475	967,000
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		
	(247,760)	27,240
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		
	131,676	(709,741)
OPEB are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.		
	-	(697,172)
Proceeds of G.O. Taxable OPEB Bonds issued during fiscal year 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.		
	10,126,537	-
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on the net assets in the Statement of Activities.		
	4,342,592	3,950,739
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
	(219,122)	10,503
Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
	150,165	(647,783)
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.		
	(12,169,474)	(20,340,000)
Principal refunding payments on long-term debt are recognized as an other financing use in the governmental funds but have no effect in the net assets in the Statement of Activities.		
	-	20,805,000
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	23,940	38,439
Change in Net Assets - Governmental Activities	\$ 2,180,545	\$ 2,467,509

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL FUND  
 For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Local Property Taxes	\$ 5,664,354	\$ 5,779,115	\$ 5,751,245	\$ (27,870)
Other Local and County Revenues	1,606,820	1,795,926	1,895,372	99,446
Revenue from State Sources	39,030,107	38,745,671	38,950,416	204,745
Revenue from Federal Sources	5,494,491	5,952,136	5,711,279	(240,857)
Sales and Other Conversion of Assets	44,200	38,300	34,705	(3,595)
Total Revenues	51,839,972	52,311,148	52,343,017	31,869
<b>EXPENDITURES:</b>				
Current:				
Administration	1,550,678	1,858,853	1,889,825	30,972
District Support Services	1,198,826	1,415,980	1,418,031	2,051
Elementary and Secondary Regular Instruction	24,599,591	29,940,030	29,565,134	(374,896)
Vocational Education Instruction	1,368,625	1,718,889	1,666,751	(52,138)
Special Education Instruction	8,845,021	11,545,046	10,619,368	(925,678)
Instructional Support Services	2,261,802	2,669,933	2,886,636	216,703
Pupil Support Services	4,433,614	4,804,399	4,713,291	(91,108)
Sites and Buildings	4,953,864	5,086,859	4,999,773	(87,086)
Fiscal and Other Fixed Cost Programs	264,000	180,250	180,096	(154)
Capital Outlay:				
Administration	9,650	9,650	3,958	(5,692)
District Support Services	7,250	7,250	7,959	709
Elementary and Secondary Regular Instruction	186,129	232,589	384,319	151,730
Vocational Education Instruction	6,880	8,320	22,530	14,210
Special Education Instruction	337,522	133,093	105,875	(27,218)
Instructional Support Services	220,359	220,359	582,025	361,666
Pupil Support Services	1,500	1,500	2,399	899
Sites and Buildings	910,885	910,885	2,097,749	1,186,864
Total Expenditures	51,156,196	60,743,885	61,145,719	401,834
Excess of Revenues Over (Under) Expenditures	683,776	(8,432,737)	(8,802,702)	(369,965)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Capital Assets	500	500	-	(500)
Bond Issuance	-	9,758,387	9,866,837	108,450
Bond Discount	-	-	(108,450)	(108,450)
Proceeds from Capital Leases	-	-	1,324,474	1,324,474
Total Other Financing Sources (Uses)	500	9,758,887	11,082,861	1,323,974
Net Change in Fund Balances	\$ 684,276	\$ 1,326,150	2,280,159	\$ 954,009
<b>FUND BALANCES:</b>				
Beginning of Year			8,936,401	
End of Year			\$ 11,216,560	

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

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

**STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2010**

	<u>Other Post Employment Benefits Irrevocable Trust Fund</u>
<b>ASSETS:</b>	
Investments:	
Brokered Money Market	\$ 41,571
Fixed Income	5,640,070
Equities	2,288,235
Mutual Funds	2,623,327
Total Assets	<u>\$ 10,593,203</u>
<b>NET ASSETS:</b>	
Held in Trust for OPEB	<u>\$ 10,593,203</u>

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2010**

	<u>Other Post Employment Benefits Irrevocable Trust Fund</u>
<b>ADDITIONS:</b>	
Contributions	\$ 10,690,300
Investment Income:	
Interest Revenue	(97,097)
Total Additions	<u>10,593,203</u>
Change in Net Assets	10,593,203
<b>NET ASSETS:</b>	
Beginning of Year	<u>-</u>
End of Year	<u>\$ 10,593,203</u>

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



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Preliminary

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

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

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

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

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

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

**1. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 11.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These Statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level.

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Trust Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this Fund is not incorporated into the government-wide statements.

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded as described on the following page.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Measurement Focus and Basis of Accounting (Continued)**

**1. Revenue Recognition**

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

**2. Recording of Expenditures**

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

**Description of Funds:**

**Major Funds:**

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

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

**Nonmajor Funds:**

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

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

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

Post Employment Debt Service Fund – This Fund is used to account for the accumulation of resources for payments of OPEB bonds, principal and related costs.

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

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds: (Continued)**

**Fiduciary Fund:**

OPEB Irrevocable Trust Fund – This Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

**D. Deposits and Investments**

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following pages.

**1. District Funds Other than OPEB Trust Fund**

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

*Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

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

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

Cash and investments at June 30, 2010 were comprised of shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and money market funds. The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Deposits and Investments (Continued)**

**1. District Funds Other than OPEB Trust Fund (Continued)**

The District had a formal deposit and investment policy in place as of June 30, 2010 to address the following risks:

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Deposits and Investments (Continued)**

**2. OPEB Trust Fund**

These funds represent investments administered by the District's OPEB Fund investment managers. As of June 30, 2010, they were comprised of brokered money markets, government agencies, corporate securities, equities and mutual funds.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*Minnesota Statutes* authorize the OPEB Trust to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

**Interest Rate Risk:** The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

<u>Asset Class</u>	<u>Percent</u>	<u>Range</u>
Cash Equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

**Credit Risk:** The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio.

**Concentration of Credit Risk:** The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of 10 years.

**Custodial Credit Risk:** The District's OPEB Trust Investment Policy does not address custodial credit risk.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGN IFICANT ACCOUNTING POLICIES**

**E. Property Tax Receivable**

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

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2009, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2010. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

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

**H. Prepaid Items**

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

**I. Property Taxes**

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

Property tax levies are certified to the County Auditors in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The counties spread all levies over taxable property. Such taxes become a lien on property on the following January 1. The Counties generally remit taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**J. Capital Assets**

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

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

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

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

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

**K. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**L. Compensated Absences**

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

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

**M. Post Employment Severance and Health Benefits**

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on year of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

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

**N. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage during the fiscal year ending June 30, 2010.

**O. Fund Equity**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**P. Net Assets**

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

**Q. Use of Estimates**

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

**R. Comparative Data**

Comparative total data for the prior year have been presented in total in the fund financial statements and government-wide statements in order to provide an understanding of the changes in financial position and operations of these funds.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**B. Excess of Expenditures Over Appropriations**

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceed appropriations in the following Funds for the year ending June 30, 2010.

Fund	Appropriations	Expenditures	Over
General	\$ 60,743,885	\$ 61,145,719	\$ 401,834
Building Construction	1,099,000	1,099,103	103

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**District Funds Other than OPEB Trust Fund**

**A. Deposits**

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

Custodial Credit Risk – Deposits: As of June 30, 2010, the District's bank balance of \$ 1,646,336 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2010 the District had the following deposits:

Checking	\$ 498,547
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**B. Investments**

As of June 30, 2010, the District had the following pooled investments:

Type	Total	Ratings	Maturity Date
Money Markets	\$ 61,979	N/A	N/A
Commercial Paper	3,000,748	A-1+	01/27/11
MSDLAF	4,073,743	AAA	N/A
<b>Total Investments</b>	<b>\$ 7,136,470</b>		

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**B. Investments (Continued)**

**OPEB Trust Fund**

As of June 30, 2010, the District's OPEB Trust Fund had the following investments:

Investment Type	Fair Value	Investment Maturities				
		Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	\$ 41,571	\$ 41,571	\$ -	\$ -	\$ -	\$ -
Fixed Income:						
Government Agencies	3,067,712	926,651	414,756	207,376	721,629	797,300
Corporate Securities	2,572,358		98,947	420,592	1,950,722	102,097
Equities	2,288,235	2,288,235	-	-	-	-
Mutual Funds	2,623,327	2,623,327	-	-	-	-
<b>Total Investments</b>	<b>\$10,593,203</b>	<b>\$ 5,879,784</b>	<b>\$ 513,703</b>	<b>\$ 627,968</b>	<b>\$ 2,672,351</b>	<b>\$ 899,397</b>

Credit Risk: The District's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

District Governmental Funds:	
Deposits (Note 3.A.)	\$ 498,547
Investments (Note 3.B.)	7,136,470
Petty Cash	6,000
OPEB Irrevocable Trust Fund:	
Investments	<u>10,593,203</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 18,234,220</u></b>

Deposits and investments are presented in the June 30, 2010 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 7,641,017
Statement of Fiduciary Net Assets:	
Trust Fund	<u>10,593,203</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 18,234,220</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital Assets not   being Depreciated:</b>				
Land	\$ 4,224,158	\$ -	\$ -	\$ 4,224,158
Construction in Progress	149,532	-	149,532	-
<b>Total Capital Assets not       being Depreciated</b>	<u>4,373,690</u>	<u>-</u>	<u>149,532</u>	<u>4,224,158</u>
<b>Capital Assets   being Depreciated:</b>				
Land Improvements	2,538,825	386,336	-	2,925,161
Buildings	99,430,928	2,275,678	-	101,706,606
Equipment and Vehicles	4,745,823	237,456	20,565	4,962,714
<b>Total Capital Assets       being Depreciated</b>	<u>106,715,576</u>	<u>2,899,470</u>	<u>20,565</u>	<u>109,594,481</u>
<b>Less Accumulated   Depreciation for:</b>				
Land Improvements	1,605,872	145,887	-	1,751,759
Buildings	27,969,516	3,027,949	-	30,997,465
Equipment and Vehicles	2,604,538	402,744	20,565	2,986,717
<b>Total Accumulated       Depreciation</b>	<u>32,179,926</u>	<u>3,576,580</u>	<u>20,565</u>	<u>35,735,941</u>
<b>Total Capital Assets being Depreciated, Net</b>	<u>74,535,650</u>	<u>(677,110)</u>	<u>-</u>	<u>73,858,540</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 78,909,340</u>	<u>\$ (677,110)</u>	<u>\$ 149,532</u>	<u>\$ 78,082,698</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 4 – CAPITAL ASSETS**

Depreciation expense of \$ 3,576,580 for the year ended June 30, 2010 was charged to the following governmental functions:

Administration	\$ 591
District Support Services	16,255
Elementary and Secondary Regular Instruction	3,353,103
Special Education Instruction	13,786
Instructional Support Services	88,027
Pupil Support	525
Sites and Buildings	53,610
Food Service	43,277
Community Service	7,406
	<u>7,406</u>
Total Depreciation Expense	<u>\$ 3,576,580</u>

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-Term Liabilities:						
G.O. Bonds, Including						
Refunding Bonds:						
2003B School Building Bonds	11/01/03	2.00%-4.60%	\$42,400,000	02/01/24	\$ 35,645,000	\$ 1,670,000
2005A Alternative Facilities Bonds	12/01/05	3.75%-3.80%	9,100,000	02/01/18	5,825,000	625,000
2008 School Building Refunding Bonds	12/17/08	4.00%-5.125%	20,340,000	02/01/22	18,910,000	1,585,000
2009A OPEB Bonds	09/15/09	2.00%-4.90%	10,845,000	02/01/23	10,845,000	115,000
Total G.O. Bonds					<u>71,225,000</u>	<u>3,995,000</u>
Unamortized Bond (Discount) Premium					438,721	37,544
Net Bonds Payable					<u>71,663,721</u>	<u>4,032,544</u>
Capital Leases Payable					2,129,577	226,577
Severance Payable					1,037,223	39,452
Compensated Absences Payable					340,550	340,550
Funded OPEB Obligation					<u>(9,429,365)</u>	<u>-</u>
Total all Long-Term Liabilities					<u>\$ 65,741,706</u>	<u>\$ 4,639,123</u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and cover annual OPEB costs and net OPEB obligations. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 – LONG-TERM DEBT**

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

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

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2011	\$ 3,995,000	\$ 3,339,526	\$ 7,334,526
2012	4,215,000	2,987,753	7,202,753
2013	4,365,000	2,811,240	7,176,240
2014	4,535,000	2,628,477	7,163,477
2015	4,710,000	2,438,615	7,148,615
2016-2020	26,010,000	9,122,883	35,132,883
2021-2025	23,395,000	2,641,719	26,036,719
Total	<u>\$ 71,225,000</u>	<u>\$ 25,970,213</u>	<u>\$ 97,195,213</u>

**C. Capital Lease Obligations**

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

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

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

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

In April 2010, the District entered into a lease purchase agreement for the remodel of the Montrose Early Childhood Building. The total financed was \$ 1,324,474 with an interest rate of 5.55% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through May 1, 2025.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 – LONG-TERM DEBT**

**C. Capital Lease Obligations (Continued)**

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

Year Ending June 30,		
2011	\$	336,654
2012		260,909
2013		202,081
2014		202,081
2015		202,081
2016-2020		1,010,407
2021-2025		763,105
Total Minimum Lease Payments		2,977,318
Less Amount Representing Interest		(847,741)
		\$ 2,129,577

The carrying value and related accumulated depreciation at June 30, 2010 for the assets purchased was as follows:

Carrying Value	\$	2,676,847
Less Accumulated Depreciation		(351,133)
Assets Net of Depreciation		\$ 2,325,714

**D. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	\$ 64,560,000	\$ 10,845,000	\$ 4,180,000	\$ 71,225,000
Net (Discount) Premium	588,886	(108,450)	41,715	438,721
Capital Leases Payable	967,695	1,324,474	162,592	2,129,577
Severance Payable	1,172,832	88,125	223,734	1,037,223
Compensated Absences Payable	92,790	456,427	208,667	340,550
Total Long-Term Liabilities	\$ 67,382,203	\$ 12,605,576	\$ 4,816,708	\$ 75,171,071

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 6 – RESERVED FUND BALANCES/RESTRICTED NET ASSETS**

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

**Fund Equity**

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

**A. Reserved Fund Balance**

	General Fund	Other Nonmajor Funds	Total
Reserved for:			
Health and Safety	\$ 147,396	\$ -	\$ 147,396
Operating Capital	38,273	-	38,273
Staff Development	74,801	-	74,801
Deferred Maintenance	18,871	-	18,871
Community Education	-	83,107	83,107
Adult Basic Education	-	12,307	12,307
Early Childhood and Family Education	-	133,840	133,840
School Readiness	-	48,587	48,587
<b>Total Reserved Fund Balance</b>	<b>\$ 279,341</b>	<b>\$ 277,841</b>	<b>\$ 557,182</b>

Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were reserved for staff development.

Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must reserve the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1, para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 6 – RESERVED FUND BALANCES/RESTRICTED NET ASSETS**

**Fund Equity (Continued)**

**A. Reserved Fund Balance (Continued)**

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

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

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

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

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

**B. Unreserved – Designated Fund Balance**

Unreserved fund balance in the General Fund includes \$ 3,474,913 set aside for severance insurance premiums, \$ 275,723 for dental insurance, \$ 164,257 for carryover, \$ 341,200 for stimulus, \$ 327,355 for capital and \$ 202,258 for student activities under School Board control.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

Substantially all employees of the District are required by state law to belong to pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these Plans follow.

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

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers’ Retirement Association**

**A. Plan Description**

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

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

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

**Tier I:**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**A. Plan Description (Continued)**

**Tier I: (Continued)**

With these provisions:

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

**Tier II:**

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.5% per year.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**A. Plan Description (Continued)**

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site [www.tra.state.mn.us](http://www.tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-6449 or (800) 657-3853.

**B. Funding Policy**

*Minnesota Statutes* Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during the fiscal year ended June 30, 2009 was approximately \$ 3.76 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2008 and 2007 were \$ 3.65 billion and \$ 3.53 billion, respectively.

The District's contributions for the years ended June 30, 2010, 2009 and 2008 were \$ 1,232,254, \$ 1,243,010 and \$ 1,238,959, respectively, equal to the required contributions for each year as set by state statute.

**Public Employees' Retirement Association**

**A. Plan Description**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association (Continued)**

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. The District's contributions for the years ended June 30, 2010, 2009 and 2008 were \$ 548,883, \$ 528,020 and \$ 513,124, respectively, equal to the contractually required contributions for each year as set by state statute.

**NOTE 8 – RETIREMENT PLANS**

**A. Post Retirement Health Care Savings Plan**

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled \$ 63,050 for the fiscal year.

**B. Defined Contribution Plan**

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District makes matching contribution for some administrative employees of \$ 16,500. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$ 701,158.

**NOTE 9 – FLEXIBLE BENEFIT PLAN**

The District has a flexible benefit plan which is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their groups allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the plan for health care and dependent care benefits.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 9 – FLEXIBLE BENEFIT PLAN**

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pretax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the plan, whether or not such contributions have been made.

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

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

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

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that we placed directly in a medical savings account upon retirement. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

**B. Funding Policy**

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2010, the District contributed \$ 11,379,957 to the plan, including \$ 10,690,300 from OPEB Bond proceeds. As of June 30, 2010, the District decided to pay retiree benefits on a pay-as-you-go basis rather than draw from the OPEB plan. Administrative costs of the plan are financed through investment earnings.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**B. Funding Policy (Continued)**

As of June 30, 2010, there were 55 retirees receiving health benefits from the District's health plan. The plan has a total of 749 active participants and dependents. Of that total, 628 are not yet eligible to receive benefits.

**C. Annual OPEB Cost and Net OPEB Obligation**

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

ARC	\$ 1,265,851
Interest on Net OPEB Obligation	27,887
Adjustment to ARC	(40,318)
Annual OPEB Cost (Expense)	<u>1,253,420</u>
Contributions Made	(689,657)
Contributions Made to Irrevocable Trust	<u>(10,690,300)</u>
Increase in Net OPEB Obligation	<u>(10,126,537)</u>
Net OPEB Obligation - Beginning of Year	697,172
Net OPEB Obligation - End of Year	<u><u>\$ (9,429,365)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	\$ 1,265,851	\$ 568,679	45%	\$ 697,172
06/30/10	1,253,420	11,379,957	908%	(9,429,365)

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**D. Funded Status and Funding Progress**

As of July 1, 2008, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 10,694,069 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 10,694,069. The covered payroll (annual payroll of active employees covered by the plan) was \$ 28,429,448 and the ratio of the UAAL to the covered payroll was 37.6%. In September 2009, the District issued G.O. Taxable OPEB Bonds, established an irrevocable trust and contributed \$ 10,690,300 of bond proceeds into the trust to fund the plan. As of June 30, 2010, the ending market value of these assets was \$ 10,593,203.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care 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 – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**E. Condensed Financial Statements**

The financial statements for the OPEB Plan are reported below because the OPEB Plan does not issue a separate financial report.

**STATEMENT OF PLAN NET ASSETS**  
**June 30, 2010**

ASSETS:	<u>\$ 10,593,203</u>
Investments, at Fair Value	
NET ASSETS:	
Net Assets Held in Trust for OPEB	<u>\$ 10,593,203</u>

**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2010**

ADDITIONS:	
Contributions	\$ 10,690,300
Investment Income:	
Net Appreciation in Fair Value of Investments	<u>(97,097)</u>
Total Additions	<u>10,593,203</u>
NET ASSETS HELD IN TRUST FOR OPEB:	
Beginning of the Year	<u>-</u>
End of the Year	<u>\$ 10,593,203</u>

**1. Notes to the Condensed Financial Statements**

**A. Plan Provisions**

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**E. Condensed Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies**

**A. Basis of Accounting**

The financial statements shown on the previous page were prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

**B. Investments**

The details of the investments and the investment policy are described in Note 1.D.2. of the District's Notes to the Financial Statements.

**C. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

**NOTE 11 – COMMITMENTS**

**A. Joint Powers Agreement**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 11 – COMMITMENTS**

**B. Rental Agreement**

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

This agreement is for a period of 15 years commencing September 1, 2000. The agreement calls for a minimum rental of 335 hours of ice time per year at the initial rate of \$ 135 per hour and an annual payment of \$ 55,000 for use of classrooms, team and locker rooms and additional ice time during the day when school is in session.

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

Preliminary

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Preliminary

**REQUIRED SUPPLEMENTARY INFORMATION**

Preliminary



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

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS**  
**For the Year Ended June 30, 2010**

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

This Schedule was implemented in 2009 and, therefore, contains only one year of data. See Note 10 in the Notes to the Financial Statements for more details on this schedule.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OTHER POST EMPLOYMENT BENEFITS**

Year Ended June 30,	Annual Required Contribution	Total Contributions	Percentage Contributed
2010	\$ 1,253,420	\$11,379,957	908%

This Schedule was implemented in 2010 and, therefore, contains only one year of data. See Note 10 in the Notes to the Financial Statements for more details on this schedule.

**SUPPLEMENTARY INFORMATION**

Preliminary

**INDEPENDENT SCHOOL DISTRICT NO. 877**

**Buffalo-Hanover-Montrose, Minnesota**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL DETAIL - GENERAL FUND  
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Local Property Taxes	\$ 5,664,354	\$ 5,779,115	\$ 5,751,245	\$ (27,870)
Other Local and County Revenues	1,606,820	1,795,926	1,895,372	99,446
Revenue from State Sources	39,030,107	38,745,671	38,950,416	204,745
Revenue from Federal Sources	5,494,491	5,952,136	5,711,279	(240,857)
Sales and Other Conversion of Assets	44,200	38,300	34,705	(3,595)
Total Revenues	<u>51,839,972</u>	<u>52,311,148</u>	<u>52,343,017</u>	<u>31,869</u>
<b>EXPENDITURES:</b>				
<b>Administration:</b>				
Salaries	1,058,750	1,011,850	1,017,757	5,907
Employee Benefits	417,425	772,500	789,797	17,297
Purchased Services	19,491	18,491	11,867	(6,624)
Supplies and Materials	18,212	19,212	16,469	(2,743)
Capital Expenditures	9,650	9,650	3,958	(5,692)
Other Expenditures	36,800	36,800	53,935	17,135
Total Administration	<u>1,560,328</u>	<u>1,868,503</u>	<u>1,893,783</u>	<u>25,280</u>
<b>District Support Services:</b>				
Salaries	664,700	631,804	643,099	11,295
Employee Benefits	199,410	444,360	444,593	233
Purchased Services	302,016	307,116	296,772	(10,344)
Supplies and Materials	14,500	14,500	9,911	(4,589)
Capital Expenditures	7,250	7,250	7,959	709
Other Expenditures	18,200	18,200	23,656	5,456
Total District Support Services	<u>1,206,076</u>	<u>1,423,230</u>	<u>1,425,990</u>	<u>2,760</u>
<b>Elementary and Secondary Regular Instruction:</b>				
Salaries	16,447,830	16,202,737	16,149,813	(52,924)
Employee Benefits	5,391,352	11,188,886	11,095,234	(93,652)
Purchased Services	1,410,256	1,247,889	1,298,056	50,167
Supplies and Materials	1,275,528	1,216,893	948,237	(268,656)
Capital Expenditures	186,129	232,589	384,319	151,730
Other Expenditures	74,625	83,625	73,794	(9,831)
Total Elementary and Secondary Regular Instruction	<u>24,785,720</u>	<u>30,172,619</u>	<u>29,949,453</u>	<u>(223,166)</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL DETAIL - GENERAL FUND**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>EXPENDITURES:</b>				
<b>Vocational Education Instruction:</b>				
Salaries	\$ 624,350	\$ 670,797	\$ 669,695	\$ (1,102)
Employee Benefits	187,305	428,559	427,986	(573)
Purchased Services	518,540	571,860	530,711	(41,149)
Supplies and Materials	38,030	47,273	37,166	(10,107)
Capital Expenditures	6,880	8,320	22,530	14,210
Other Expenditures	400	400	1,193	793
<b>Total Vocational Education Instruction</b>	<b>1,375,505</b>	<b>1,727,209</b>	<b>1,689,281</b>	<b>(37,928)</b>
<b>Special Education Instruction:</b>				
Salaries	6,008,830	6,219,800	6,066,451	(153,349)
Employee Benefits	2,105,738	4,536,250	3,862,696	(673,554)
Purchased Services	637,103	679,475	597,320	(82,155)
Supplies and Materials	78,921	88,521	86,874	(1,647)
Capital Expenditures	337,522	133,093	105,875	(27,218)
Other Expenditures	14,429	21,000	6,027	(14,973)
<b>Total Special Education Instruction</b>	<b>9,182,543</b>	<b>11,678,139</b>	<b>10,725,243</b>	<b>(952,896)</b>
<b>Instructional Support Services:</b>				
Salaries	1,300,450	1,323,002	1,283,790	(39,212)
Employee Benefits	357,018	949,905	926,533	(23,372)
Purchased Services	123,589	123,039	133,106	10,067
Supplies and Materials	224,184	221,426	414,339	192,913
Capital Expenditures	220,359	220,359	582,025	361,666
Other Expenditures	256,561	52,561	128,868	76,307
<b>Total Instructional Support Services</b>	<b>2,482,161</b>	<b>2,890,292</b>	<b>3,468,661</b>	<b>578,369</b>
<b>Pupil Support Services:</b>				
Salaries	771,150	804,250	809,333	5,083
Employee Benefits	231,845	505,030	506,211	1,181
Purchased Services	3,104,635	3,299,635	3,281,542	(18,093)
Supplies and Materials	324,984	194,484	115,665	(78,819)
Capital Expenditures	1,500	1,500	2,399	899
Other Expenditures	1,000	1,000	540	(460)
<b>Total Pupil Support Services</b>	<b>4,435,114</b>	<b>4,805,899</b>	<b>4,715,690</b>	<b>(90,209)</b>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL DETAIL - GENERAL FUND  
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>EXPENDITURES:</b>				
<b>Sites and Buildings:</b>				
Salaries	\$ 1,875,750	\$ 1,732,870	\$ 1,768,400	\$ 35,530
Employee Benefits	562,725	1,143,740	1,145,986	2,246
Purchased Services	1,627,541	1,449,791	1,473,314	23,523
Supplies and Materials	829,240	701,850	540,334	(161,516)
Capital Expenditures	910,885	910,885	2,097,749	1,186,864
Other Expenditures	58,608	58,608	71,739	13,131
Total Sites and Buildings	<u>5,864,749</u>	<u>5,997,744</u>	<u>7,097,522</u>	<u>1,099,778</u>
<b>Fiscal and Other Fixed Cost Programs:</b>				
Purchased Services	134,000	134,000	133,846	(154)
Other Expenditures	130,000	46,250	46,250	-
Total Fiscal and Other Fixed Cost Programs	<u>264,000</u>	<u>180,250</u>	<u>180,096</u>	<u>(154)</u>
Total Expenditures	<u>51,156,196</u>	<u>60,743,885</u>	<u>61,145,719</u>	<u>401,834</u>
Excess of Revenues Over (Under) Expenditures	683,776	(8,432,737)	(8,802,702)	(369,965)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Capital Assets	500	500	-	(500)
Proceeds from Bond Issuance	-	9,758,387	9,866,837	108,450
Bond Discount	-	-	(108,450)	(108,450)
Proceeds from Capital Leases	-	-	1,324,474	1,324,474
Total Other Financing Sources (Uses)	<u>500</u>	<u>9,758,887</u>	<u>11,082,861</u>	<u>1,323,974</u>
Net Change in Fund Balances	<u>\$ 684,276</u>	<u>\$ 1,326,150</u>	2,280,159	<u>\$ 954,009</u>
<b>FUND BALANCES:</b>				
Beginning of Year			<u>8,936,401</u>	
End of Year			<u>\$ 11,216,560</u>	

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

**COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2010  
(With Comparative Totals as of June 30, 2009)**

	Special Revenue			Debt Service	Total Nonmajor Funds	
	Food Service	Community Service	Total	Post	2010	2009
				Employment Benefits Debt Service Fund		
<b>ASSETS:</b>						
Cash and Investments	\$ 14,055	\$ 429,192	\$ 443,247	\$ 362,309	\$ 805,556	\$ 1,702,307
Current Property Taxes Receivable	-	320,765	320,765	476,403	797,168	322,179
Delinquent Property Taxes Receivable	-	13,344	13,344	-	13,344	11,050
Accounts Receivable	-	-	-	-	-	30
Due from Department of Education	5,149	123,750	128,899	-	128,899	59,367
Due from Other Minnesota School Districts	-	57,793	57,793	-	57,793	44,874
Due from Federal Government through Department of Education	36,455	-	36,455	-	36,455	-
Due from Other Governmental Units	-	485	485	-	485	-
Inventory	69,317	-	69,317	-	69,317	93,276
Prepaid Items	37,136	9,798	46,934	-	46,934	44,081
<b>Total Assets</b>	<b>\$ 162,112</b>	<b>\$ 955,127</b>	<b>\$ 1,117,239</b>	<b>\$ 838,712</b>	<b>\$ 1,955,951</b>	<b>\$ 2,277,164</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 5,476	\$ 23,488	\$ 28,964	\$ -	\$ 28,964	\$ 162,296
Salaries and Benefits Payable	(8,239)	76,177	67,938	-	67,938	73,261
Due to Other Governmental Units	-	-	-	-	-	2,117
Due to Other Funds	-	-	-	-	-	25,406
Deferred Revenue	61,327	13,344	74,671	-	74,671	67,057
Property Taxes Levied for Subsequent Year's Expenditures	-	564,269	564,269	838,712	1,402,981	565,908
<b>Total Liabilities</b>	<b>59,442</b>	<b>677,278</b>	<b>736,720</b>	<b>838,712</b>	<b>1,575,432</b>	<b>896,045</b>
<b>Fund Balances:</b>						
<b>Reserved:</b>						
Community Education Programs	-	83,107	83,107	-	83,107	107,205
Adult Basic Education	-	12,307	12,307	-	12,307	11,289
Early Childhood and Family Education Programs	-	133,840	133,840	-	133,840	69,226
School Readiness	-	48,587	48,587	-	48,587	44,430
Unreserved - Undesignated	102,670	8	102,678	-	102,678	1,148,969
<b>Total Fund Balances</b>	<b>102,670</b>	<b>277,849</b>	<b>380,519</b>	<b>-</b>	<b>380,519</b>	<b>1,381,119</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 162,112</b>	<b>\$ 955,127</b>	<b>\$ 1,117,239</b>	<b>\$ 838,712</b>	<b>\$ 1,955,951</b>	<b>\$ 2,277,164</b>

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

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010  
(With Comparative Totals for the Year Ended June 30, 2009)**

	Special Revenue			Capital Project	Total Nonmajor Funds	
	Food Service	Community Service	Total	Building Construction	2010	2009
<b>REVENUES:</b>						
Local Property Taxes	\$ -	\$ 537,712	\$ 537,712	\$ -	\$ 537,712	\$ 451,858
Other Local and County Revenues	1,347	1,798,466	1,799,813	1,006	1,800,819	1,951,589
Revenue from State Sources	116,493	458,540	575,033	-	575,033	598,027
Revenue from Federal Sources	936,855	-	936,855	-	936,855	838,465
Sales and Other Conversion of Assets	1,702,659	-	1,702,659	-	1,702,659	1,742,673
<b>Total Revenues</b>	<b>2,757,354</b>	<b>2,794,718</b>	<b>5,552,072</b>	<b>1,006</b>	<b>5,553,078</b>	<b>5,582,612</b>
<b>EXPENDITURES:</b>						
<b>Current:</b>						
Sites and Buildings	-	-	-	34,066	34,066	135,711
Food Service	3,032,051	-	3,032,051	-	3,032,051	2,712,424
Community Education and Services	-	3,379,867	3,379,867	-	3,379,867	2,829,317
<b>Capital Outlay:</b>						
Sites and Buildings	-	-	-	1,065,037	1,065,037	3,216,957
Food Service	14,135	-	14,135	-	14,135	75,676
Community Education and Services	-	7,085	7,085	-	7,085	28,272
<b>Total Expenditures</b>	<b>3,046,186</b>	<b>3,386,952</b>	<b>6,433,138</b>	<b>1,099,103</b>	<b>7,532,241</b>	<b>8,998,357</b>
Excess of Revenues Under Expenditures	(288,832)	(592,234)	(881,066)	(1,098,097)	(1,979,163)	(3,415,745)
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from Sale of Capital Assets	400	-	400	-	400	138,257
Bond Issuance	352,780	625,383	978,163	-	978,163	-
Transfers In	-	-	-	-	-	3,743
Transfers Out	-	-	-	-	-	(829,803)
<b>Total Other Financing Sources (Uses)</b>	<b>353,180</b>	<b>625,383</b>	<b>978,563</b>	<b>-</b>	<b>978,563</b>	<b>(687,803)</b>
<b>Net Change in Fund Balances</b>	<b>64,348</b>	<b>33,149</b>	<b>97,497</b>	<b>(1,098,097)</b>	<b>(1,000,600)</b>	<b>(4,103,548)</b>
<b>FUND BALANCES:</b>						
Beginning of Year	38,322	244,700	283,022	1,098,097	1,381,119	5,484,667
End of Year	\$ 102,670	\$ 277,849	\$ 380,519	\$ -	\$ 380,519	\$ 1,381,119

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

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Other Local and County Revenues	\$ 7,000	\$ 7,000	\$ 1,347	\$ (5,653)
Revenue from State Sources	110,450	110,450	116,493	6,043
Revenue from Federal Sources	868,125	868,125	936,855	68,730
Sales and Other Conversion of Assets	1,858,935	1,858,935	1,702,659	(156,276)
Total Revenues	2,844,510	2,844,510	2,757,354	(87,156)
<b>EXPENDITURES:</b>				
<b>Food Service:</b>				
Salaries	1,040,500	1,040,500	1,033,285	(7,215)
Employee Benefits	282,675	635,460	691,398	55,938
Purchased Services	120,300	120,300	129,139	8,839
Supplies and Materials	1,297,200	1,297,200	1,172,291	(124,909)
Capital Expenditures	12,000	12,000	14,135	2,135
Other Expenditures	6,500	6,500	5,938	(562)
Total Expenditures	2,759,175	3,111,960	3,046,186	(65,774)
Excess of Revenues Over (Under) Expenditures	85,335	(267,450)	(288,832)	(21,382)
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from Sale of Capital Asset	-	-	400	400
Bond Issuance	-	352,780	352,780	-
Total Other Financing Sources	-	352,780	353,180	400
Net Change in Fund Balances	\$ 85,335	\$ 85,330	64,348	\$ (20,982)
<b>FUND BALANCES:</b>				
Beginning of Year			38,322	
End of Year			\$ 102,670	



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

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND  
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Local Property Taxes	\$ 520,869	\$ 520,869	\$ 537,712	\$ 16,843
Other Local and County Revenues	1,786,672	1,805,196	1,798,466	(6,730)
Revenue from State Sources	434,439	434,439	458,540	24,101
Total Revenues	2,741,980	2,760,504	2,794,718	34,214
<b>EXPENDITURES:</b>				
Community Education and Services:				
Salaries	1,886,611	1,898,211	1,795,012	(103,199)
Employee Benefits	400,500	1,028,237	1,093,461	65,224
Purchased Services	260,050	260,750	290,643	29,893
Supplies and Materials	171,750	173,150	190,102	16,952
Capital Expenditures	25,000	25,000	7,085	(17,915)
Other Expenditures	9,200	9,200	10,649	1,449
Total Expenditures	2,753,111	3,394,548	3,386,952	(7,596)
Excess of Revenues Over (Under) Expenditures	(11,131)	(634,044)	(592,234)	41,810
<b>OTHER FINANCING SOURCES:</b>				
Bond Issuance	-	625,383	625,383	-
Net Change in Fund Balances	\$ (11,131)	\$ (8,661)	33,149	\$ 41,810
<b>FUND BALANCES:</b>				
Beginning of Year			244,700	
End of Year			\$ 277,849	

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2010**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture:		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	\$ 137,321
School Breakfast	10.553	116,266
Type A Lunch	10.555	680,894
Special Milk	10.556	2,374
Total Child Nutrition Cluster and U.S. Department of Agriculture		936,855
U.S. Department of Education:		
Through Minnesota Department of Education:		
Title I, Part A Cluster:		
Title I, Part A	84.010	354,571
ARRA Title I, Part A	84.389	123,475
Total Title I, Part A Cluster		478,046
Title IV, Part A - Safe and Drug Free Schools	84.186	14,790
Title II, Part A - Improving Teacher Quality	84.367	139,559
Title III, Part A - Language Enhancement	84.365	25,034
ARRA Stabilization Title VIII, Impact Aid	84.394	3,193,902
Special Education Cluster:		
Special Education	84.027	958,824
ARRA Special Education	84.391	745,249
Handicapped Early Education	84.173	14,911
ARRA Handicapped Early Education	84.392	47,134
Total Special Education Cluster		1,766,118
Special Education - Infants and Toddlers Cluster:		
ARRA Special Education - Infants and Toddlers	84.393	33,601
Through Wright County Interagency Early Intervention Committee:		
Special Education - Infants and Toddlers	84.181	35,412
Total Special Education - Infants and Toddlers Cluster		69,013
Total Department of Education		5,686,462
Total Federal Expenditures		\$ 6,623,317

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2010**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NOTE 2 – INVENTORY**

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

Preliminary

Preliminary

**OTHER INFORMATION**

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

**DEFERRED TAX LEVIES**  
**(Unaudited)**

Calendar Year Levied	Collected	School Building Refunding Bonds of 1999	School Building Bonds of 2003	Alternative Facilities Bonds of 2005	Taxable OPEB Bonds of 2009	Total
2010	2011	\$ 2,521,470	\$ 3,619,300	\$ 903,433	\$ 518,687	\$ 7,562,890
2011	2012	2,526,300	3,591,900	898,249	518,687	7,535,136
2012	2013	2,522,940	3,577,300	902,777	518,687	7,521,704
2013	2014	2,123,100	3,963,400	900,874	518,687	7,506,061
2014	2015	2,135,280	3,928,800	903,236	518,687	7,486,003
2015	2016	2,134,020	3,016,800	904,418	1,290,437	7,345,675
2016	2017	2,135,490	3,024,200	899,168	1,290,681	7,349,539
2017	2018	2,125,541	3,018,400	-	2,207,194	7,351,135
2018	2019	2,108,741	3,024,100	-	2,224,541	7,357,382
2019	2020	2,112,167	3,014,400	-	2,240,206	7,366,773
2020	2021	645,731	4,475,400	-	2,258,912	7,380,043
2021	2022	-	5,199,500	-	2,186,378	7,385,878
2022	2023	-	5,206,000	-	-	5,206,000
Total		<u>\$ 23,090,780</u>	<u>\$ 48,659,500</u>	<u>\$ 6,312,155</u>	<u>\$ 16,291,784</u>	<u>\$ 94,354,219</u>

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

**PROPERTY TAX LEVIES, RATES AND VALUATIONS  
LAST 10 FISCAL YEARS  
June 30, 2010  
(Unaudited)**

<u>Year Collectible</u>	<u>Net Tax Capacity Valuations</u>	<u>Tax Capacity Rates</u>	<u>General Fund</u>	<u>Community Service Fund</u>	<u>Debt Service Fund</u>	<u>OPEB Debt Service Fund</u>	<u>Total All Funds</u>
2001	\$16,557,636	0.57813	\$ 7,837,875	\$ 272,134	\$ 3,142,106	\$ -	\$ 11,252,115
2002	14,452,216	0.32049	2,368,295	322,050	3,412,290	-	6,102,635
2003	16,598,813	0.36712	4,463,834	355,316	3,124,260	-	7,943,410
2004	19,241,942	0.40045	3,999,310	433,864	5,133,398	-	9,566,572
2005	21,885,088	0.33232	4,786,185	394,396	4,189,234	-	9,369,815
2006	27,038,385	0.27768	2,908,810	446,569	6,847,702	-	10,203,081
2007	31,211,062	0.31663	5,024,291	469,777	7,578,738	-	13,072,806
2008	33,777,333	0.28308	5,548,494	468,565	7,072,607	-	13,089,666
2009	34,865,502	0.26180	5,680,660	565,908	6,650,262	-	12,896,830
2010	32,763,398	0.28085	5,673,327	564,269	6,035,737	838,712	13,112,045

Source: School Tax Report

Preliminary

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

October 18, 2010

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 10-02 to be material weakness.





A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies as defined above.

## **COMPLIANCE AND OTHER MATTERS**

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

We noted certain matters that we reported to management of the District in a separate letter dated October 18, 2010.

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

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

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



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

October 18, 2010

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

**COMPLIANCE**

We have audited the compliance of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to 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 in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Audit Finding 10-01 in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, the District did not comply with requirements regarding allowable costs that are applicable to its federal programs in the Title I and Special Education Clusters. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.



In our opinion, except for the noncompliance described in the preceding paragraph, Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

## **INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

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

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN  
ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2010**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 10-02
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs:	Qualified – Title I Cluster, Special Education Cluster
	Unqualified - Stabilization
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes, Audit Finding 10-01

**Identification of Major Programs**

CFDA No.:	84.010, 84.389
Name of Federal Program or Cluster:	Title I Cluster
CFDA No.:	84.027, 84.173, 84.391, 84.392
Name of Federal Program or Cluster:	Special Education Cluster
CFDA No.:	84.394
Name of Federal Program or Cluster:	Stabilization
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN**  
**ACCORDANCE WITH OMB CIRCULAR A-133**  
**June 30, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 10-02 – Material Audit Adjustments**

*Criteria or Specific Requirement:*

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires all material entries be posted prior to the audit.

*Condition:*

During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, an audit adjustment was required relating to the issuance of a capital lease.

*Questioned Costs:*

None

*Context:*

This finding impacts the District's ability to internally prepare their financial statements free from material misstatements.

*Effect:*

The financial statements would have material misstatements.

*Cause:*

District personnel did not make all required audit adjustments.

*Recommendation:*

Review the District's financial statements to assure all entries are prepared and posted prior to the audit.

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The Business Office will go through the suggested year-end checklists provided by the Minnesota Department of Education to make sure all entries are prepared and posted prior to the audit.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN  
ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 10-02 – Material Audit Adjustments (Continued)

*Management's Response: (Continued)*

CORRECTIVE ACTION PLAN (CAP): (Continued)

3. Official Responsible for Ensuring CAP  
Tina Burkholder, Controller, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2011.
5. Plan to Monitor Completion of CAP  
Administration will be monitoring this CAP.

Preliminary

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN**  
**ACCORDANCE WITH OMB CIRCULAR A-133**  
**June 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Audit Finding 10-01 – Time Documentation for Federal Programs**

**Federal Programs: Special Education Cluster, CFDA No. 84.027, 84.173, 84.391, 84.392;**  
**Title I Cluster, CFDA No. 84.010, 84.389**

*Criteria or Specific Requirement:*

Employees working on multiple activities or cost objectives, receiving a portion of pay from federal awards, are required to complete personnel activity reports or equivalent documentation after the fact. The distribution of actual activity must be prepared at least monthly, coincide with one or more pay periods, be signed by the employee and the employee supervisor.

*Condition:*

According to the OMB *Circular A-87*, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on more than one federal award, a federal award and a nonfederal award, an indirect cost activity and a direct cost activity, two or more indirect activities which are allocated using different allocation bases or an unallowable activity and a direct or indirect cost activity.

Personnel activity reports or equivalent documentation must meet the following standards:

- Reflect an after the fact distribution of the actual activity of each employee,
- Account for the total activity for which each employee is compensated,
- Be prepared at least monthly and must coincide with one ore more pay periods and
- Be signed by the employee.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actual performed, at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made, the budget estimates or other distribution percentages are revised at least quarterly to reflect changed circumstances.

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These sections are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts or other quantifiable measures of employee effort.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Audit Finding 10-01 – Time Documentation for Federal Programs (Continued)**

**Federal Programs: Special Education Cluster, CFDA No. 84.027, 84.173, 84.391, 84.392;  
Title I Cluster, CFDA No. 84.010, 84.389 (Continued)**

During our audit, we reviewed time documentation for a sample of special education and Title I employees. We noted there was one employee in each federal program that had not completed Personal Activity Reports for the year.

*Questioned Costs:*  
None

*Context:*  
This finding impacts the District's ability to ensure salaries paid out of federal award monies are due to time spent on activities required.

*Effect:*  
The employee's time allocation could be incorrectly allocated to the federal program.

*Cause:*  
District personnel do not have adequate documentation for their salary allocation to the federal program.

*Recommendation:*  
Implement a system requiring this certification to be filled out monthly or on a semiannual basis depending on the percentage worked in the federal program for the year. Also, ensure the approval of the employee supervisor and the employee signs and dates the report. The district should also implement procedures to ensure quarterly comparisons are completed between budgeted costs and actual costs on the Personal Activity Reports.

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The Business Office will work with the Special Education and Teaching & Learning departments to identify the employees paid out of federal award monies and obtain the monthly or semiannual Personal Activity Reports.



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2010**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Audit Finding 10-01 – Time Documentation for Federal Programs (Continued)**

**Federal Programs: Special Education Cluster, CFDA No. 84.027, 84.173, 84.391, 84.392;  
Title I Cluster, CFDA No. 84.010, 84.389 (Continued)**

**CORRECTIVE ACTION PLAN (CAP): (Continued)**

3. Official Responsible for Ensuring CAP  
Tina Burkholder, Controller, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2011.
5. Plan to Monitor Completion of CAP  
Administration will be monitoring this CAP.

Preliminary



*Expert advice. When you need it.<sup>SM</sup>*

## **REPORT ON LEGAL COMPLIANCE**

October 18, 2010

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2010.

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

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

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

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

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

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

**SCHEDULE OF FINDINGS AND CORRECTIVE  
ACTION PLANS ON LEGAL COMPLIANCE  
June 30, 2010**

**PRIOR YEAR LEGAL COMPLIANCE FINDINGS:**

**Prompt Payment to Subcontractor**

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

Not all of the District's contracts included the proper verbiage to account for prompt payment of subcontractors in 2009.

**CORRECTIVE ACTION TAKEN**

The District's contracts included the proper verbiage for prompt payment of subcontractors during fiscal year 2010.

**Update Collateral Assignment Agreement**

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

The District's collateral assignment with the depository in 2009 stated the collateral pledged will be released after the depository has three days to cure the event of default.

**CORRECTIVE ACTION TAKEN:**

The District's collateral assignment with the depository stated the collateral pledged will be released upon default during fiscal year 2010.

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

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
For the Year Ended June 30, 2010**

	Audited	UFARS	Audit-UFARS		Audited	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>					<b>07 DEBT SERVICE FUND</b>		
Total Revenue	\$ 52,343,017	\$ 52,343,018	\$ 1	Total Revenue	\$ 6,655,550	\$ 6,655,550	\$
Total Expenditures	61,145,719	61,145,719		Total Expenditures	7,111,951	7,111,951	
<i>Reserved:</i>				<i>Reserved:</i>			
403 Staff Development	74,801	74,801		425 Bond Refundings			
405 Deferred Maintenance	18,871	18,871		451 QZAB Payments			
406 Health and Safety	147,396	147,396		<i>Unreserved:</i>			
407 Capital Projects Levy				422 Unreserved/Undesignated	1,933,058	1,933,058	
408 Cooperative Revenue							
413 Project Funded by COP				<b>08 TRUST FUND</b>			
414 Operating Debt				Total Revenue	\$	\$	\$
416 Levy Reduction				Total Expenditures			
419 Encumbrances				<i>Reserved:</i>			
423 Certain Teacher Programs				419 Encumbrances			
424 Operating Capital	38,273	38,273		<i>Unreserved:</i>			
426 \$ 25 Taconite				422 Unreserved/Undesignated			
427 Disabled Accessibility							
428 Learning and Development				<b>09 AGENCY FUND</b>			
434 Area Learning Center				<i>Unreserved:</i>			
435 Contracted Alternative Programs				422 Unreserved/Undesignated	\$	\$	\$
436 State Approved Alternative Program							
438 Gifted and Talented				<b>20 INTERNAL SERVICE FUND</b>			
441 Basic Skills Programs				Total Revenue	\$	\$	\$
445 Career Technical Programs				Total Expenditures			
446 First Grade Preparedness				<i>Reserved:</i>			
449 Safe School Crime				419 Encumbrances			
450 Prekindergarten				<i>Unreserved:</i>			
451 QZAB Payments				422 Unreserved/Undesignated			
452 OPEB Liabilities not in Trust							
453 Unfunded Severance and Retirement Levy				<b>25 OPEB REVOCABLE TRUST</b>			
<i>Unreserved:</i>				Total Revenue	\$	\$	\$
418 Severance-Insurance Premium	3,474,913	3,474,913		Total Expenditures			
422 Unreserved/Undesignated	7,462,306	7,462,306		<i>Reserved:</i>			
				419 Encumbrances			
<b>02 FOOD SERVICES FUND</b>				<i>Unreserved:</i>			
Total Revenue	\$ 2,757,354	\$ 2,757,354	\$	422 Unreserved/Undesignated			
Total Expenditures	3,046,186	3,046,187	1	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Reserved:</i>				Total Revenue	\$ 10,593,203	\$ 10,593,203	\$
419 Encumbrances				Total Expenditures			
452 OPEB Liabilities not in Trust				<i>Reserved:</i>			
<i>Unreserved:</i>				419 Encumbrances			
418 Severance-Insurance Premium				<i>Unreserved:</i>			
422 Unreserved/Undesignated	102,670	102,669	(1)	422 Unreserved/Undesignated	10,593,203	10,593,203	
<b>04 COMMUNITY SERVICE FUND</b>							
Total Revenue	\$ 2,794,718	\$ 2,794,717	\$ 1	<b>47 OPEB DEBT SERVICE</b>			
Total Expenditures	3,386,952	3,386,950	(2)	Total Revenue	\$	\$	\$
<i>Reserved:</i>				Total Expenditures			
419 Encumbrances				<i>Reserved:</i>			
426 \$ 25 Taconite				425 Bond Refundings			
431 Community Education	83,107	83,107		<i>Unreserved:</i>			
432 ECFE	133,840	133,840		422 Unreserved/Undesignated			
444 School Readiness	48,587	48,587					
447 Adult Basic Education	12,307	12,307		<i>Unaudited Data Reporting Elements</i>			
452 OPEB Liabilities not in Trust				<b>FY10 OPERATING CAPITAL TRANSFER</b>			
<i>Unreserved:</i>				Per Pupil Amount	\$		
418 Severance-Insurance Premium				AMCPU			
422 Unreserved/Undesignated	8			Total Transfer			
<b>06 BUILDING CONSTRUCTION FUND</b>							
Total Revenue	\$ 1,006	\$ 1,006	\$				
Total Expenditures	1,099,103	1,099,103					
<i>Reserved:</i>							
407 Capital Projects Levy							
409 Alternative Facility Program							
413 Project Funded by COP							
419 Encumbrances							
<i>Unreserved:</i>							
422 Unreserved/Undesignated							