

INDEPENDENT SCHOOL DISTRICT NO. 277
Minnetrista, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

INDEPENDENT SCHOOL DISTRICT NO. 277

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INDEPENDENT SCHOOL DISTRICT NO. 277
BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2011

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
David Botts	Chairperson	January 1, 2012
Ann Bremer	Vice Chairperson	January 1, 2012
Gary Hejna	Treasurer	January 1, 2012
Keith Foerster	Director	January 1, 2014
Tom Notch	Director	January 1, 2012
Margie Saatzer	Director	January 1, 2014
Gary Wollner	Director	January 1, 2014
<u>Administration</u>		
Kevin Borg	Superintendent	
Mark Femrite	Assistant Superintendent for Teaching and Learning	
Megan Berberick	Director of Finance	
Mary Hughes	Director of Community Education	
Tom Ireland	Technology Coordinator	
Meredith Boo	Director of Special Services	
Keith Randklev	Principal - Mound Westonka High School	
Christy Zachow	Principal - Grandview Middle School	
Ann Swanson	Principal - Shirley Hills Primary	
Nancy Benz	Principal - Hilltop Primary	



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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2011, 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 on page 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 in relation to the financial statements as a whole.

A handwritten signature in cursive script, reading "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington Minnesota
November 7, 2011

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INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. 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 an 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information that includes the management's discussion and analysis ([MD&A] this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the government-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 government-wide 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.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide data with more detail.

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.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are 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 overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental Activities** – All 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 aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on the 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 law or 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. fiduciary funds).

The District has three kinds of funds:

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 that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds Statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on the Governmental Funds Statements that explain the relationship (or differences) between them.

Proprietary Funds – These funds present short and long-term financial information about the activities the District operates like a business, such as retiree severance funds.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets – The District's combined net assets were \$ 9,296,509 on June 30, 2011.

Table 1
Statement of Net Assets
Governmental Activities

	2010	2011	Percentage Change 2010-2011
ASSETS:			
Current and Other Assets	\$ 18,987,895	\$ 17,769,184	-6.4%
Capital Assets	7,798,423	7,811,900	0.2%
Total Assets	<u>\$ 26,786,318</u>	<u>\$ 25,581,084</u>	-4.5%
LIABILITIES:			
Long-Term Liabilities	\$ 6,806,070	\$ 5,524,025	-18.8%
Other Liabilities	13,277,085	10,760,550	-19.0%
Total Liabilities	<u>\$ 20,083,155</u>	<u>\$ 16,284,575</u>	-18.9%
NET ASSETS:			
Invested in Capital Assets			
Net of Related Debt	\$ 3,643,878	\$ 4,507,705	23.7%
Restricted	763,770	820,706	7.5%
Unrestricted	2,295,515	3,968,098	72.9%
Total Net Assets	<u>\$ 6,703,163</u>	<u>\$ 9,296,509</u>	38.7%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A summary of the revenue and expenses is presented in Table 2.

Table 2
Change in Net Assets

	2010	2011	Percentage Change 2010-2011
REVENUES:			
Program Revenues:			
Charges for Services	\$ 3,004,485	\$ 3,004,831	0.0%
Operating Grants and Contributions	4,624,542	4,780,473	3.4%
Capital Grants and Contributions	166,897	-	-100.0%
General Revenues:			
Property Taxes	7,781,892	10,897,049	40.0%
State Aid - Formula Grants	11,575,908	10,260,537	-11.4%
Other	1,680,634	675,428	-59.8%
Total Revenues	28,834,358	29,618,318	2.7%
 EXPENSES:			
Administration	775,433	817,221	5.4%
District Support Services	1,002,403	795,257	-20.7%
Elementary and Secondary Regular Instruction	10,857,539	11,285,578	3.9%
Vocational Education Instruction	109,953	147,620	34.3%
Special Education Instruction	4,340,372	4,228,916	-2.6%
Community Education and Services	2,171,588	2,240,084	3.2%
Instructional Support Services	1,093,101	1,073,534	-1.8%
Pupil Support Services	2,027,553	2,152,302	6.2%
Sites, Buildings and Equipment	2,658,961	2,724,744	2.5%
Fiscal and Other Fixed Cost Programs	101,022	71,294	-29.4%
Food Service	1,250,591	1,208,545	-3.4%
Interest on Long-Term Debt	314,211	279,877	-10.9%
Total Expenses	26,702,727	27,024,972	1.2%
 Increase in Net Assets	2,131,631	2,593,346	21.7%
 End of Year Net Assets	\$ 6,703,163	\$ 9,296,509	38.7%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Assets – The District's total revenues were \$ 29,618,318 for the year ended June 30, 2011. Property taxes and state formula aid accounted for 71% of total revenue for the year (see Figure A). Another 2.3% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total revenues surpassed expenses, increasing net assets \$ 2,593,346 over last year.

Figure A
Sources of the District's Revenues for Fiscal Year 2011



The total cost of all programs and services was \$ 27,024,972. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs, and instructional and pupil support were 69.9% of expenses incurred; see Figure B). The purely administrative activities of the District accounted for just 3.0% of total costs.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure B
The District's Expenses for Fiscal Year 2011

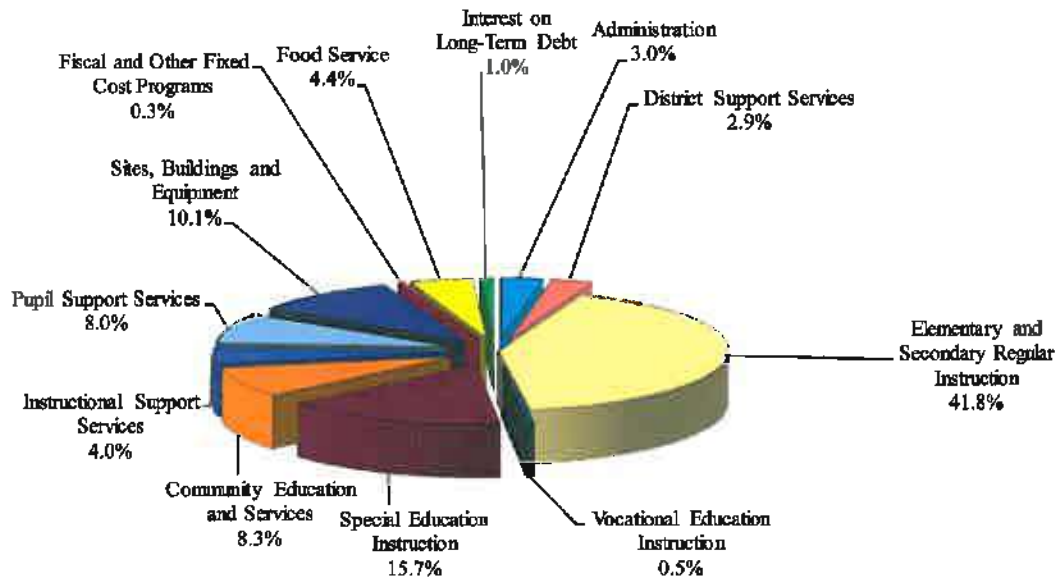


Table 3
Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2010	2011	2010-2011	2010	2011	2010-2011
Administration	\$ 775,433	\$ 817,221	5.4%	\$ 775,433	\$ 817,221	5.4%
District Support Services	1,002,403	795,257	-20.7%	1,002,403	795,257	-20.7%
Elementary and Secondary Regular Instruction	10,857,539	11,285,578	3.9%	9,373,010	9,822,041	4.8%
Vocational Education Instruction	109,953	147,620	34.3%	99,327	136,866	37.8%
Special Education Instruction	4,340,372	4,228,916	-2.6%	1,337,547	1,071,539	-19.9%
Community Education and Services	2,171,588	2,240,084	3.2%	393,153	392,593	-0.1%
Instructional Support Services	1,093,101	1,073,534	-1.8%	1,049,366	1,068,430	1.8%
Pupil Support Services	2,027,553	2,152,302	6.2%	1,916,945	2,059,290	7.4%
Sites, Buildings and Equipment	2,658,961	2,724,744	2.5%	2,530,132	2,724,744	7.7%
Fiscal and Other Fixed Cost Programs	101,022	71,294	-29.4%	101,022	71,294	-29.4%
Food Service	1,250,591	1,208,545	-3.4%	14,254	516	-96.4%
Interest on Long-Term Debt	314,211	279,877	-10.9%	314,211	279,877	-10.9%
Total	\$ 26,702,727	\$ 27,024,972	1.2%	\$ 18,906,803	\$ 19,239,668	1.8%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

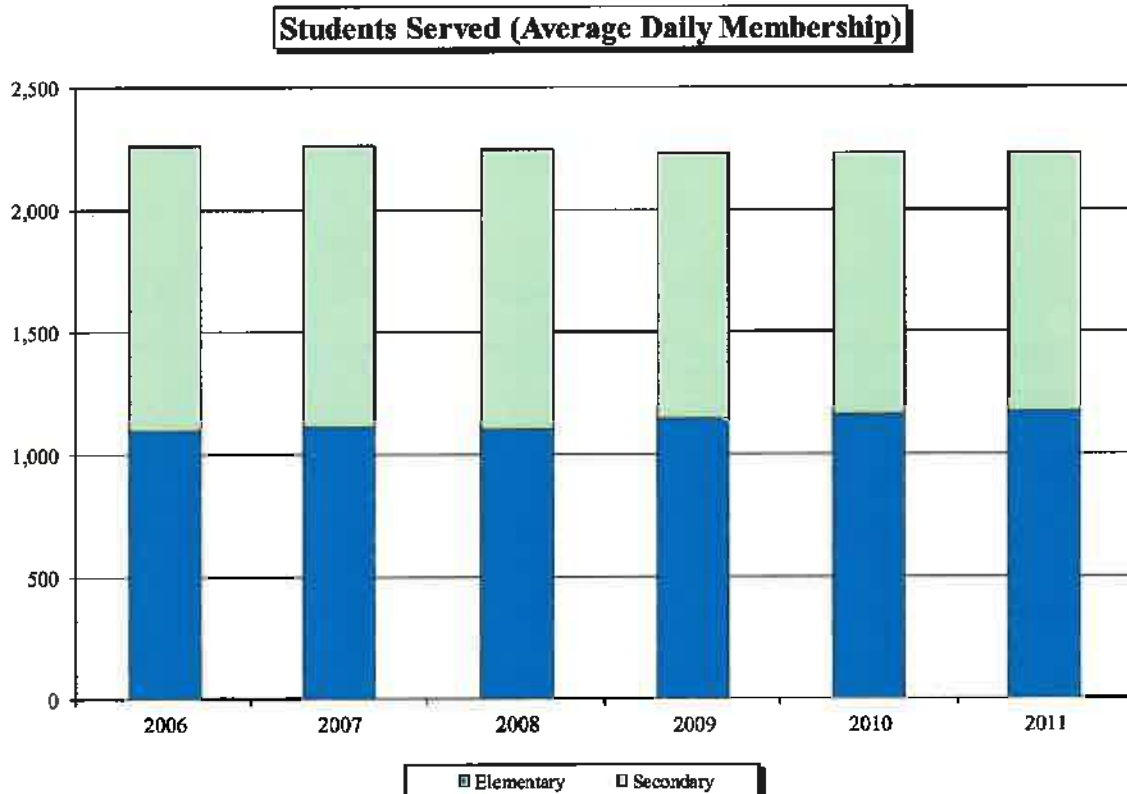
The cost of all governmental activities for 2010-2011 was \$ 27,024,972.

- Some of the cost was paid by the users of the District's programs: \$ 3,004,831.
- The federal and state governments subsidized certain programs with grants and contributions: \$ 4,780,473.
- Most of the District's costs – \$ 21,157,586 – were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$ 10,897,049 in property taxes and \$ 10,260,537 of state aid based on the statewide education aid formula. In addition, \$ 675,428 of investment earnings and other general revenues was recognized.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of \$ 4,040,725, an increase of \$ 1,130,598 from last year's ending fund balance of \$ 2,910,127.

Revenues for the District's governmental funds were \$ 29,449,465 while total expenditures were \$ 28,551,659, resulting in a \$ 897,806 excess of revenues over expenditures. The following graph shows the number of students served by the District:



INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

During 2010-2011, the District's total enrollment stayed the same from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served six more students than projected in the budget.

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:

	Year Ended June 30, 2010	Year Ended June 30, 2011	Percentage Change 2010-2011
Local Sources:			
Property Taxes	\$ 6,410,326	\$ 8,687,136	35.5%
Other	815,652	598,941	-26.6%
State Sources	14,564,722	13,595,619	-6.7%
Federal Sources	2,412,086	1,477,518	-38.7%
Total	<u>\$ 24,202,786</u>	<u>\$ 24,359,214</u>	0.6%

Total General Fund revenue increased by \$ 156,428, or 0.6%, from the previous year. This is primarily due to an increase in property taxes due to less negative adjustments in 2011 and the property tax shift.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2011</u>	<u>Percentage Change 2010-2011</u>
Salaries	\$ 12,644,919	\$ 12,931,949	2.3%
Benefits	3,767,134	3,928,301	4.3%
Purchased Services	4,530,011	4,416,196	-2.5%
Supplies, Materials and Equipment	1,914,981	2,106,471	10.0%
Other Expenses	150,078	97,169	-35.3%
Total	<u>\$ 23,007,123</u>	<u>\$ 23,480,086</u>	2.1%

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Total General Fund expenditures increased \$ 472,963, or 2.1%, from the previous year primarily due to increases in wages and benefits and the new copier lease.

In 2010-2011, General Fund expenditures were less than revenues by \$ 1,111,920 after taking into account the issuance of a capital lease in other financing sources in the amount of \$ 232,792.

After deducting statutory reserves, the unreserved fund balance was \$ 2,273,972 at June 30, 2010. During fiscal year 2011, the District was required to adopt GASB Statement No. 54 which changes the way fund balance is reported into the following categories: nonspendable, restricted, committed, assigned and unassigned. The unassigned fund balance is \$ 2,689,729 at June 30, 2011.

Statutory reserves/restrictions in the General Fund for deferred maintenance, health and safety and operating capital had a deficit total of \$ 166,573 at June 30, 2011, primarily due to a deficit health and safety fund balance in the amount of \$ 183,273.

General Fund Budget Highlights

Over the course of the year, the District revised the annual operating budget. Budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale and gifts.
- Increases in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$ 497,001, the actual results for the year show a positive variance of \$ 879,132.

- Actual revenues were \$ 263,048 greater than expected, a 1.1% variance.
- The actual expenditures were \$ 119,083 less than budgeted, a 0.5% variance.

COMMUNITY SERVICE AND DEBT SERVICE FUNDS

The Community Service Fund experienced a current year shortfall of \$ 8,007 due to insufficient revenues to cover the amount of program expenditures. The Community Service fund balance was \$ 434,825 as of June 30, 2011. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund expenditures exceeded revenues by \$ 16,664 in 2010-2011, due to a fund balance excess adjustment that was refunded to taxpayers. The remaining fund balance of \$ 240,733 at June 30, 2011 is available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

NONMAJOR FUNDS

The Food Service Fund had positive operations of \$ 12,252 and has a restricted fund balance of \$ 123,369 and nonspendable fund balance of \$ 10,944 on June 30, 2011. This balance will be used to offset future operating losses and to fund equipment improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the District had invested \$ 27,586,581 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was \$ 463,940. More detailed information can be found in Note 4 of the financial statements.

Table 4
Capital Assets - Governmental Activities

	2010	2011	Total Percent Change 2010-2011
Land	\$ 1,645,835	\$ 1,645,835	0.0%
Land Improvements	2,010,026	2,136,084	6.3%
Buildings	15,646,347	15,808,531	1.0%
Furniture and Equipment	8,492,893	7,921,696	-6.7%
Vehicles	74,435	74,435	0.0%
Less Accumulated Depreciation	<u>(20,071,113)</u>	<u>(19,774,681)</u>	-1.5%
Total	<u>\$ 7,798,423</u>	<u>\$ 7,811,900</u>	0.2%

Debt Administration

On March 1, 1994, the District issued General Obligation (G.O.) School Building Bonds for school improvements totaling \$ 14,700,000. Due to favorable market conditions and interest rates, during fiscal year 2003, the District issued G.O. School Building Refunding Bonds, Series 2003B to defease the 1994 School Building Bonds. This refunding will result in savings in the cost of interest over the remaining life of the Bonds.

At June 30, 2011, the District had bonded debt obligations of \$ 6,740,000. The state limits the amount of G.O. debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit, which is currently \$ 492,663,856. The District is within its legal authority for bonded debt.

INDEPENDENT SCHOOL DISTRICT NO. 277
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Liabilities

At year-end, the District had \$ 6,999,195 in G.O. bonds and capital leases payable outstanding, a decrease of 15.16% from last year, as shown in Table 5. The District also had \$ 33,178 in compensated absences payable at June 30, 2011. Total long-term liability decreased by 15.1%. More detailed information can be found in Note 6 of the financial statements.

Table 5
Outstanding Long-Term Liabilities

	<u>2010</u>	<u>2011</u>	<u>Total Percent Change 2010-2011</u>
G.O. Bonds Payable	\$ 8,075,000	\$ 6,740,000	-16.5%
Capital Leases Payable	174,545	259,195	48.5%
Compensated Absences	<u>30,029</u>	<u>33,178</u>	10.5%
Total	<u>\$ 8,279,574</u>	<u>\$ 7,032,373</u>	-15.1%

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum and building bond 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.

The State Legislature approved no change in the formula allowance for fiscal years 2009-2010 and 2010-2011. With \$ 50 per pupil increase in the general education funding formula for 2011-2012 and a 10% shift in payments to 60% of revenue received in the current fiscal year and 40% in the following year, the District will strive to maximize resources available through efficient and effective management of its operations.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

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 money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 6,555,727
Current Property Taxes Receivable	4,415,465
Delinquent Property Taxes Receivable	342,419
Accounts Receivable	77,951
Interest Receivable	55,871
Due from Department of Education	5,063,859
Due from Federal Government through Department of Education	642,374
Due from Other Minnesota School Districts	50,252
Inventory	56,917
Prepaid Items	383,339
Net Other Post Employment Benefits (OPEB) Asset	125,010
Capital Assets:	
Land	1,645,835
Land Improvements	2,136,084
Buildings	15,808,531
Equipment	7,921,696
Vehicles	74,435
Less Accumulated Depreciation	<u>(19,774,681)</u>
Total Assets	<u>\$ 25,581,084</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts Payable	\$ 457,508
Salaries and Benefits Payable	136,422
Interest Payable	122,072
Due to Other Minnesota School Districts	251,000
Property Tax Shift Adjustment	17,964
Unearned Revenue	435,143
Property Taxes Levied for Subsequent Year's Expenditures	4,832,093
Short-Term Indebtedness	3,000,000
Bond Principal Payable:	
Payable Within One Year	1,380,000
Payable After One Year	5,360,000
Capital Lease Payable:	
Payable Within One Year	102,773
Payable After One Year	156,422
Compensated Absences Payable:	
Payable Within One Year	25,575
Payable After One Year	7,603
Total Liabilities	<u>16,284,575</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,507,705
Restricted	840,901
Unrestricted	3,947,903
Total Net Assets	<u>9,296,509</u>
Total Liabilities and Net Assets	<u>\$ 25,581,084</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

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					
Administration	\$ 817,221	\$ -	\$ -	\$ -	\$ (817,221)
District Support Services	795,257	-	-	-	(795,257)
Elementary and Secondary Regular Instruction	11,285,578	392,352	1,071,185	-	(9,822,041)
Vocational Education Instruction	147,620	-	10,754	-	(136,866)
Special Education Instruction	4,228,916	-	3,157,377	-	(1,071,539)
Instructional Support Services	1,073,534	5,104	-	-	(1,068,430)
Pupil Support Services	2,152,302	8,350	84,662	-	(2,059,290)
Sites and Buildings	2,724,744	-	-	-	(2,724,744)
Fiscal and Other Fixed Cost Programs	71,294	-	-	-	(71,294)
Food Service	1,208,545	895,945	312,084	-	(516)
Community Education and Services	2,240,084	1,703,080	144,411	-	(392,593)
Interest and Fiscal Charges on Long-Term Debt	279,877	-	-	-	(279,877)
Total Governmental Activities	\$ 27,024,972	\$ 3,004,831	\$ 4,780,473	\$ -	(19,239,668)
General Revenues					
Taxes:					
Property Taxes, Levied for General Purposes					8,684,102
Property Taxes, Levied for Community Service					590,860
Property Taxes, Levied for Debt Service					1,622,087
State Aid-Formula Grants					10,260,537
Other General Revenues					481,970
Investment Income					193,458
Total General Revenues					21,833,014
Change in Net Assets					2,593,346
Net Assets - Beginning					6,703,163
Net Assets - Ending					\$ 9,296,509

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

INDEPENDENT SCHOOL DISTRICT NO. 277

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Community Service</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 307,153	\$ 731,234	\$ 826,641	\$ 460,122	\$ 2,325,150
Current Property Taxes Receivable	3,341,127	547,077	231,053	296,208	4,415,465
Delinquent Property Taxes Receivable	269,003	44,485	14,954	13,977	342,419
Accounts Receivable	29,940	-	48,011	-	77,951
Due from Department of Education	5,030,804	4,692	25,800	2,563	5,063,859
Due from Federal Government through Department of Education	642,374	-	-	-	642,374
Due from Other Minnesota School Districts	50,252	-	-	-	50,252
Inventory	46,874	-	-	10,043	56,917
Prepaid Items	377,817	-	4,621	901	383,339
Total Assets	<u>\$ 10,095,344</u>	<u>\$ 1,327,488</u>	<u>\$ 1,151,080</u>	<u>\$ 783,814</u>	<u>\$ 13,357,726</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 422,968	\$ -	\$ 29,527	\$ 5,013	\$ 457,508
Salaries and Benefits Payable	87,634	-	48,770	18	136,422
Interest Payable	15,599	-	-	-	15,599
Due to Other Minnesota School Districts	251,000	-	-	-	251,000
Property Tax Shift Adjustment	17,964	-	-	-	17,964
Deferred Revenue	139,293	23,092	406,485	37,545	606,415
Property Taxes Levied for Subsequent Year's Expenditures	2,961,125	1,063,663	231,473	575,832	4,832,093
Short-Term Indebtedness	3,000,000	-	-	-	3,000,000
Total Liabilities	<u>6,895,583</u>	<u>1,086,755</u>	<u>716,255</u>	<u>618,408</u>	<u>9,317,001</u>
Fund Balances					
Nonspendable	424,691	-	4,621	10,944	440,256
Restricted	(166,573)	240,733	430,204	154,462	658,826
Committed	169,914	-	-	-	169,914
Assigned	82,000	-	-	-	82,000
Unassigned	2,689,729	-	-	-	2,689,729
Total Fund Balances	<u>3,199,761</u>	<u>240,733</u>	<u>434,825</u>	<u>165,406</u>	<u>4,040,725</u>
Total Liabilities and Fund Balances	<u>\$ 10,095,344</u>	<u>\$ 1,327,488</u>	<u>\$ 1,151,080</u>	<u>\$ 783,814</u>	<u>\$ 13,357,726</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2011**

Total Fund Balances - Governmental Funds	\$ 4,040,725
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	27,586,581
Less Accumulated Depreciation	(19,774,681)
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	(6,740,000)
Capital Lease Payable	(259,195)
Compensated Absences Payable	(33,178)
Net OPEB asset created through employer contributions reducing the actuarial accrued liability is not recognized in governmental funds.	125,010
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.	171,272
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	4,286,448
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	<u>(106,473)</u>
Total Net Assets - Governmental Activities	<u>\$ 9,296,509</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

	General	Debt Service	Community Service	Nonmajor Funds	Total Governmental Funds
REVENUES					
Local Property Taxes	\$ 8,687,136	\$ 1,050,769	\$ 590,759	\$ 569,892	\$ 10,898,556
Other Local and County Revenues	593,317	1,633	1,719,231	8,887	2,323,068
Revenue from State Sources	13,595,619	15,642	(83,135)	43,560	13,571,686
Revenue from Federal Sources	1,477,518	-	-	277,068	1,754,586
Sales and Other Conversion of Assets	5,624	-	-	895,945	901,569
Total Revenues	<u>24,359,214</u>	<u>1,068,044</u>	<u>2,226,855</u>	<u>1,795,352</u>	<u>29,449,465</u>
EXPENDITURES					
Current					
Administration	815,057	-	-	-	815,057
District Support Services	632,103	-	-	-	632,103
Elementary and Secondary Regular Instruction	10,889,367	-	-	-	10,889,367
Vocational Education Instruction	147,561	-	-	-	147,561
Special Education Instruction	4,193,929	-	-	-	4,193,929
Instructional Support Services	1,058,649	-	-	-	1,058,649
Pupil Support Services	2,148,746	-	-	-	2,148,746
Sites and Buildings	2,280,519	-	-	-	2,280,519
Fiscal and Other Fixed Cost Programs	71,294	-	-	-	71,294
Food Service	-	-	-	1,182,946	1,182,946
Community Education and Services	-	-	2,207,645	-	2,207,645
Capital Outlay					
District Support Services	154,728	-	-	-	154,728
Elementary and Secondary Regular Instruction	343,410	-	-	-	343,410
Special Education Instruction	33,927	-	-	-	33,927
Instructional Support Services	3,531	-	-	-	3,531
Sites and Buildings	707,261	-	-	-	707,261
Food Service	-	-	-	21,718	21,718
Community Education and Services	-	-	27,217	-	27,217
Debt Service					
Principal	-	935,000	-	400,000	1,335,000
Interest and Fiscal Charges	-	149,708	-	147,343	297,051
Total Expenditures	<u>23,480,082</u>	<u>1,084,708</u>	<u>2,234,862</u>	<u>1,752,007</u>	<u>28,551,659</u>
Excess of Revenues Over (Under) Expenditures	879,132	(16,664)	(8,007)	43,345	897,806
OTHER FINANCING SOURCE					
Issuance of Capital Lease	<u>232,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,792</u>
Net Change in Fund Balances	1,111,924	(16,664)	(8,007)	43,345	1,130,598
FUND BALANCES					
Beginning of Year	<u>2,087,837</u>	<u>257,397</u>	<u>442,832</u>	<u>122,061</u>	<u>2,910,127</u>
End of Year	<u>\$ 3,199,761</u>	<u>\$ 240,733</u>	<u>\$ 434,825</u>	<u>\$ 165,406</u>	<u>\$ 4,040,725</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**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, 2011**

Net Change in Fund Balances - Total Governmental Funds \$ 1,130,598

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	477,417
Depreciation Expense	(463,940)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (3,149)

Net OPEB are recognized as paid in the governmental funds. The impact on the Statement
of Activities, however, is the creation of a new OPEB asset which is a combination
of employer contributions and the amortization of the net OPEB obligation for the year. 14,051

Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in the net assets in the Statement
of Activities. 1,483,142

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. 19,395

The issuance of long-term debt provides current financial resources to governmental
funds and has no effect on net assets. These amounts are reported in the
governmental funds as a source of financing. These amounts are not shown as
revenues in the Statement of Activities, but rather constitute long-term
liabilities in the Statement of Net Assets.

Capital Lease	(232,792)
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The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge
the benefits to the fund that incurs the cost. This amount represents the change in
assets available to fund the liabilities. 170,131

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. (1,507)

Change in Net Assets - Governmental Activities	<u>\$ 2,593,346</u>
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The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Local Property Taxes	\$ 6,663,540	\$ 6,480,016	\$ 8,687,136	\$ 2,207,120
Other Local and County Revenues	567,376	384,173	593,317	209,144
Revenue from State Sources	15,423,862	15,715,790	13,595,619	(2,120,171)
Revenue from Federal Sources	1,049,048	1,516,187	1,477,518	(38,669)
Sales and Other Conversion of Assets	60,275	-	5,624	5,624
Total Revenues	<u>23,764,101</u>	<u>24,096,166</u>	<u>24,359,214</u>	<u>263,048</u>
EXPENDITURES				
Current				
Administration	829,478	809,606	815,057	5,451
District Support Services	602,190	630,890	632,103	1,213
Elementary and Secondary Regular Instruction	10,903,891	11,143,292	10,889,367	(253,925)
Vocational Education Instruction	122,881	127,317	147,561	20,244
Special Education Instruction	4,564,722	4,498,950	4,193,929	(305,021)
Instructional Support Services	1,220,066	1,166,307	1,058,649	(107,658)
Pupil Support Services	2,015,897	2,088,623	2,148,746	60,123
Sites and Buildings	1,908,368	2,075,114	2,280,519	205,405
Fiscal and Other Fixed Cost Programs	115,000	104,053	71,294	(32,759)
Capital Outlay				
District Support Services	258,250	292,895	154,728	(138,167)
Elementary and Secondary Regular Instruction	182,929	188,955	343,410	154,455
Special Education Instruction	50,000	60,456	33,927	(26,529)
Instructional Support Services	11,000	7,526	3,531	(3,995)
Sites and Buildings	220,000	405,181	707,261	302,080
Total Expenditures	<u>23,004,672</u>	<u>23,599,165</u>	<u>23,480,082</u>	<u>(119,083)</u>
Excess of Revenues Over Expenditures	759,429	497,001	879,132	382,131
OTHER FINANCING SOURCE				
Issuance of Capital Lease	<u>-</u>	<u>-</u>	232,792	232,792
Net Change in Fund Balances	<u>\$ 759,429</u>	<u>\$ 497,001</u>	1,111,924	<u>\$ 614,923</u>
FUND BALANCES				
Beginning of Year			<u>2,087,837</u>	
End of Year			<u>\$ 3,199,761</u>	

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget- Over (Under)
REVENUES				
Local Property Taxes	\$ 383,925	\$ 383,925	\$ 590,759	\$ 206,834
Other Local and County Revenues	1,779,041	1,722,542	1,719,231	(3,311)
Revenue from State Sources	69,610	146,567	(83,135)	(229,702)
Total Revenues	<u>2,232,576</u>	<u>2,253,034</u>	<u>2,226,855</u>	<u>(26,179)</u>
EXPENDITURES				
Current				
Community Education and Services	2,202,732	2,310,123	2,207,645	(102,478)
Capital Outlay				
Community Education and Services	19,650	12,650	27,217	14,567
Total Expenditures	<u>2,222,382</u>	<u>2,322,773</u>	<u>2,234,862</u>	<u>(87,911)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 10,194</u>	<u>\$ (69,739)</u>	(8,007)	<u>\$ 61,732</u>
FUND BALANCES				
Beginning of Year			<u>442,832</u>	
End of Year			<u>\$ 434,825</u>	

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 7,375
Investments	4,223,202
Interest Receivable	<u>55,871</u>
 Total Assets	 <u><u>\$ 4,286,448</u></u>
 LIABILITIES AND NET ASSETS	
Net Assets	
Unrestricted	<u>4,286,448</u>
 Total Liabilities and Net Assets	 <u><u>\$ 4,286,448</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND**

For the Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
OPERATING EXPENSES	
Professional Services	\$ 229
NONOPERATING REVENUE	
Interest Revenue	<u>170,360</u>
Change in Net Assets	170,131
NET ASSETS	
Beginning of Year	<u>4,116,317</u>
End of Year	<u><u>\$ 4,286,448</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended June 30, 2011

	Governmental Activities- Internal Service Fund
CASH FLOWS - OPERATING ACTIVITIES	
Cash Paid to Vendors	\$ (229)
CASH FLOWS - INVESTING ACTIVITIES	
Purchase of Investments	(709,995)
Interest Received	175,342
Net Cash Flows - Investing Activities	<u>(534,653)</u>
Net Change in Cash and Cash Equivalents	(534,882)
CASH AND CASH EQUIVALENTS	
Beginning of Year	<u>542,257</u>
End of Year	<u><u>\$ 7,375</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES	
Operating Loss	<u><u>\$ (229)</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and Investments (Including Cash Equivalents)	<u>\$ 195,008</u>	<u>\$ 218,955</u>
LIABILITIES		
Due to Others	<u>\$ 195,008</u>	<u>\$ -</u>
NET ASSETS		
Held in Trust for Scholarships	<u>\$ -</u>	<u>\$ 218,955</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2011

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions	\$ 20,440
Interest Revenue	258
Total Additions	<u>20,698</u>
DEDUCTIONS	
Scholarships	<u>21,750</u>
Change in Net Assets	(1,052)
NET ASSETS	
Beginning of Year	<u>220,007</u>
End of Year	<u>\$ 218,955</u>

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INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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.

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued.

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

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 Agency and Private Purpose Trust Funds are 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, these Funds are not incorporated into the government-wide statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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 made. Other revenue is considered available if collected within 60 days.

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 when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures. Local, state and federal revenues are received in this Fund to specifically support the food service program.

Post Employment Benefits Debt Service Fund – This Fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Fiduciary Funds:

Private Purpose Trust Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

Agency Fund – This Fund is used for funds held in an agency capacity such as student activities.

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This Fund is used to account for the accumulation of resources to fund post employment benefits.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

D. Deposits and Investments

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund are not pooled with the rest of the District's deposits and investments.

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, 2011 were comprised of deposits, brokered certificates of deposits, government securities, term series bonds and brokered money market accounts.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Custodial Credit Risk – Deposits: For deposits, 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 which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03.

Minnesota Statutes require 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.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those referred to in *Minnesota Statutes* 118A.04 and 118A.05.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy states investments should be diversified to avoid incurring unreasonable risks inherent to over investing in specific instruments, individual financial institutions or maturities.

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 all investments shall be held in third party safekeeping by an institution designated as custodial agent.

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 is 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.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2010, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2011. 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 expenditures at the time of consumption.

I. Property Taxes

The District is located in Hennepin County.

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

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

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 \$ 2,000 and an estimated useful life in excess of five years. 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.

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Capital Assets (Continued)

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 40 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. Deferred Revenue

Deferred revenue represents monies received prior to June 30, 2011, but earned subsequent to the fiscal year-end.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, the face amount of debt issued is reported as other financing sources and principal payments are reported as expenditures when paid.

M. Compensated Absences

The District compensates administration, clerical and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to 5 days for school service employees and 10 days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Severance

There is one educational office employee eligible for severance after completing 20,880 hours of continuous service. This employee will receive \$ 12,000.

Food service employees are eligible for severance pay after completing 14,800 hours of continuous service. They shall receive 1 day pay for each day of unused sick leave, not to exceed 100 days.

O. 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, 2011.

P. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventories and prepaid items.
- **Restricted Fund Balances** – These are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** -- These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- **Assigned Fund Balances** – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- **Unassigned Fund Balances** – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- **Minimum Fund Balance Policy** – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior fiscal year's expenditures and a maximum of 15% of the prior fiscal year's expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

Q. 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.

R. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service and Trust Funds.
4. Budgets for the General, Special Revenue, Debt Service and Trust Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceeded appropriations in the following Fund for the year ending June 30, 2011.

	<u>Appropriations</u>	<u>Expenditures</u>
Major Fund:		
Debt Service	\$ 1,084,125	\$ 1,084,706

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of June 30, 2011, the District's bank balance was not exposed to custodial credit risk because its deposit balance was fully insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2011, the District had the following deposits:

Checking and Savings Accounts	\$ 679,930
Petty Cash	375
	<hr/>
Total Deposits	<u>\$ 680,305</u>

B. Investments

As of June 30, 2011, the District had the following investments:

Investment	Weighted Average Maturities In Years	Fair Value
Brokered Money Markets	N/A	\$ 932,848
Brokered Money Markets - OPEB	N/A	7,375
Negotiable Certificates of Deposit	0.01	498,960
Negotiable Certificates of Deposit - OPEB	0.25	1,310,930
Government Securities - OPEB	3.92	2,912,272
MN Trust Term Series Bonds	0.01	627,000
		<hr/>
Total		<u>\$ 6,289,385</u>

Credit Risk: The District's investments in government securities were either rated AAA by Standard and Poor's (S&P) or Aa2 by Moody's. The remaining investment types are unrated, therefore, not subject to credit risk.

Concentration of Credit Risk: The District's investments over 5% of the total portfolio included: ISD No. 181 G.O. Bonds (15.9%), ISD No. 300 G.O. Bonds (5.0%) and ISD No. 709 G.O. Bonds (7.5%).

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The following is a summary of deposits and investments at June 30, 2011:

Deposits (Note 3.A)	\$ 680,305
Investments	<u>6,289,385</u>
Total Deposits and Investments	<u>\$ 6,969,690</u>

Deposits and investments are presented in the June 30, 2011 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 6,555,727
Statement of Fiduciary Net Assets:	
Agency Fund - Cash and Investments	195,008
Private Purpose Trust Fund - Cash and Investments	<u>218,955</u>
Total Deposits and Investments	<u>\$ 6,969,690</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,645,835	\$ -	\$ -	\$ 1,645,835
Capital Assets being Depreciated:				
Land Improvements	2,010,026	126,058	-	2,136,084
Buildings	15,646,347	162,184	-	15,808,531
Equipment	8,492,893	189,175	(760,372)	7,921,696
Vehicles	74,435	-	-	74,435
Total Capital Assets being Depreciated	<u>26,223,701</u>	<u>477,417</u>	<u>(760,372)</u>	<u>25,940,746</u>
Less Accumulated Depreciation:				
Land Improvements	962,052	75,973	-	1,038,025
Buildings	11,968,258	244,101	-	12,212,359
Equipment	7,073,812	143,866	(760,372)	6,457,306
Vehicles	66,991	-	-	66,991
Total Accumulated Depreciation	<u>20,071,113</u>	<u>463,940</u>	<u>(760,372)</u>	<u>19,774,681</u>
Total Capital Assets being Depreciated, Net	<u>6,152,588</u>	<u>13,477</u>	<u>-</u>	<u>6,166,065</u>
Governmental Activities, Capital Assets, Net	<u>\$ 7,798,423</u>	<u>\$ 13,477</u>	<u>\$ -</u>	<u>\$ 7,811,900</u>

Depreciation expense of \$ 463,940 for the year ended June 30, 2011 was charged to the following governmental functions:

Administration	\$ 1,938
District Support Services	52,076
Elementary and Secondary Regular Instruction	73,226
Vocational Education Instruction	59
Special Education Instruction	5,770
Instructional Support Services	11,552
Pupil Support Services	3,704
Sites and Buildings	294,699
Food Service	16,141
Community Education and Services	4,775
Total Depreciation Expense	<u>\$ 463,940</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5 – SHORT-TERM DEBT

A. Certificates of Indebtedness

On August 30, 2010, the District received proceeds from G.O. Aid Anticipation Certificates of Indebtedness. The details are as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Certificate Amount</u>
G.O. Aid Anticipation Certificates of Indebtedness, Series 2010A	09/30/11	1.00%	\$ 3,000,000

Repayment of the entire amount will be made with proceeds from General Education Aids received in fiscal year 2012.

On September 20, 2010, the District paid the G.O. Aid Anticipation Certificates of Indebtedness, Series 2009A. The short-term debt of \$ 3,500,000 was dated August 20, 2009 and had an interest rate of 1.0%.

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One year</u>
Long-Term Liabilities:						
G.O. Bonds Including						
Refunding Bonds:						
2003B Refunding Bonds	05/02/03	2.00%-4.00%	\$ 9,125,000	02/01/14	\$ 3,045,000	\$ 970,000
2009A Taxable OPEB Bonds	04/21/09	2.25%-4.55%	4,095,000	02/01/19	3,695,000	410,000
Capital Leases					259,195	102,773
Compensated						
Absences Payable					<u>33,178</u>	<u>25,575</u>
Total all Long-Term Liabilities					<u>\$ 7,032,373</u>	<u>\$ 1,508,348</u>

The long-term bond and lease liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and to finance OPEB obligations. Other long-term liabilities such as severance and vacation payable are typically liquidated through the General Fund.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2012	\$ 1,380,000	\$ 252,742	\$ 1,632,742
2013	1,440,000	207,722	1,647,722
2014	1,490,000	156,872	1,646,872
2015	450,000	100,318	550,318
2016	465,000	84,118	549,118
2017-2019	1,515,000	135,726	1,650,726
Total	<u>\$ 6,740,000</u>	<u>\$ 937,498</u>	<u>\$ 7,677,498</u>

C. Capital Lease Obligations

On September 23, 1997, the District entered into a lease purchase agreement for the acquisition of energy conservation improvements. The capital lease obligation and corresponding improvements totaled \$ 975,731. The capital lease agreement includes principal and interest payments for fiscal year 2011 of \$ 61,731.

On March 7, 2007, the District entered into a lease purchase agreement for the acquisition of student accounting software. The capital lease obligation and corresponding equipment totaled \$ 80,467. The capital lease agreement includes annual principal and interest payments of \$ 24,224.

On August 5, 2010, the District entered into a lease purchase agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled \$ 232,792. The capital lease agreement includes annual principal and interest payments of \$ 55,032.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 – 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:

<u>Year Ending</u> <u>June 30,</u>	
2012	\$ 116,763
2013	55,032
2014	55,032
2015	55,032
2016	9,172
Total Minimum Lease Payments	<u>291,031</u>
Less Amount Representing Interest	<u>(31,836)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 259,195</u></u>

D. Changes in Long-Term Liabilities

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
Long-Term Liabilities:				
G.O. Bonds	\$ 8,075,000	\$ -	\$ 1,335,000	\$ 6,740,000
Capital Leases	174,545	232,792	148,142	259,195
Compensated Absences Payable	30,029	87,270	84,121	33,178
Total Long-Term Liabilities	<u>\$ 8,279,574</u>	<u>\$ 320,062</u>	<u>\$ 1,567,263</u>	<u>\$ 7,032,373</u>

NOTE 7 – FUND BALANCES/NET ASSETS

Certain portions of fund balance are restricted 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.

A. Fund Equity

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 7 – FUND BALANCES/NET ASSETS

A. Fund Equity (Continued)

	General Fund	Debt Service	Community Service Fund	Nonmajor Funds	Total
Nonspendable:					
Inventory	\$ 46,874	\$ -	\$ -	\$ 10,043	\$ 56,917
Prepaid Items	377,817	-	4,621	901	383,339
Total Nonspendable	<u>424,691</u>	<u>-</u>	<u>4,621</u>	<u>10,944</u>	<u>440,256</u>
Restricted/Reserved for:					
Deferred Maintenance	2,811	-	-	-	2,811
Health and Safety	(183,273)	-	-	-	(183,273)
Operating Capital	13,889	-	-	-	13,889
Community Education	-	-	351,117	-	351,117
Early Childhood and Family Education	-	-	33,955	-	33,955
School Readiness	-	-	45,101	-	45,101
Community Service	-	-	31	-	31
Food Service	-	-	-	123,369	123,369
Debt Service	-	240,733	-	31,093	271,826
Total Restricted/Reserved	<u>(166,573)</u>	<u>240,733</u>	<u>430,204</u>	<u>154,462</u>	<u>658,826</u>
Committed for:					
Separation/Retirement Benefits	169,914	-	-	-	169,914
Assigned	82,000	-	-	-	82,000
Unassigned	<u>2,689,729</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,689,729</u>
Total Fund Balance	<u>\$ 3,199,761</u>	<u>\$ 240,733</u>	<u>\$ 434,825</u>	<u>\$ 165,406</u>	<u>\$ 4,040,725</u>

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventories.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

Restricted/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.

Restricted/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.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 7 – FUND BALANCES/NET ASSETS

A. Fund Equity (Continued)

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

Restricted/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.

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

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

Restricted/Reserved for Community Service – This balance represents the remaining balance of the Community Service Fund and is 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.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund, not already spent on inventory or prepaid items.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned – This balance represents an estimated amount that will be due to Intermediate District No. 287.

A. Net Assets

Restricted net assets are comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service and Debt Service Funds.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

INDEPENDENT SCHOOL DISTRICT NO. 277
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – 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. The 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:

Tier I:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – 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.

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. 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.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

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, 2010 was approximately \$ 3.79 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2009 and 2008 were \$ 3.76 billion and \$ 3.65 billion, respectively. The District's contributions for the years ended June 30, 2011, 2010 and 2009 were \$ 590,893, \$ 580,744 and \$ 564,856, 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 General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the Internet at 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.

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The District's contributions to the Public Employees' Retirement Fund for the years ended June 30, 2011, 2010 and 2009 were \$ 251,895, \$ 236,461 and \$ 221,353, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 9 – 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. Medical coverage is administered by HealthPartners. 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.

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS June 30, 2011

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description (Continued)

School service employees hired before July 1, 2000, have completed 15 years of service and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

There is one custodian eligible for severance at June 30, 2011. Their severance is 100 days of pay at their daily rate of pay at retirement, less any contributions the District has made to the deferred compensation plan; this balance will be paid into a HSA.

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of \$ 18,500 or \$ 26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the \$ 18,500 or \$ 26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

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 Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2011, the District contributed \$ 449,006 to the plan.

As of June 30, 2011, there were approximately 42 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 253 active participants. Of that total, 246 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 on the following page shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

INDEPENDENT SCHOOL DISTRICT NO. 277
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$ 433,284
Interest on Net OPEB Obligation	(4,993)
Adjustment to ARC	6,664
Annual OPEB Cost (Expense)	<u>434,955</u>
Employer Contributions	<u>(449,006)</u>
Increase in Net OPEB Obligation	(14,051)
Net OPEB Obligation - Beginning of Year	<u>(110,959)</u>
Net OPEB Obligation - End of Year	<u><u>\$ (125,010)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009, 2010 and 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/11	\$ 434,955	\$ 449,006	103%	\$ (125,010)
06/30/10	440,484	524,440	119%	(110,959)
06/30/09	440,484	467,487	106%	(27,003)

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 3,533,073 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 3,533,073. The covered payroll (annual payroll of active employees covered by the plan) was \$ 12,649,005, and the ratio of the UAAL to the covered payroll was 27.9%.

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.

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

On April 21, 2009, the District issued \$ 4,095,000 G.O. Taxable OPEB Bonds, Series 2009A to fund part of the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the Post Employment Benefits Revocable Trust Internal Service Fund. As of June 30, 2011, the ending market value of these assets was \$ 4,286,448.

E. Actuarial Methods and Assumptions

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

At the July 1, 2010 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.5% initially, reduced incrementally to an ultimate rate of 5% after 7 years. Both rates included a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 27 years.

NOTE 10 – COMMITMENT

As of June 30, 2011, the District had the following commitment:

<u>Project</u>	<u>Project Authorization</u>	<u>Work Completed</u>	<u>Remaining Commitment</u>
High School Elevator Installation	\$ 88,854	\$ -	\$ 88,854

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This action resulted in a reclassification of fund balances on the governmental fund statements to correspond with the new fund naming structure required by this statement.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
June 30, 2011

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*	\$ -	\$ 3,917,060	\$ 3,917,060	0.0%	\$ 11,691,731	33.5%
07/01/10*	-	3,533,073	3,533,073	0.0%	12,649,005	27.9%

* This Schedule was implemented in 2009 and the actuarial valuation has only been updated once, therefore, contains only two years of data. See Note 9 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2011

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
		Post Employment Benefits Debt Service	Total Nonmajor Funds
	<u>Food Service</u>		
ASSETS			
Cash and Investments	\$ 163,657	\$ 296,465	\$ 460,122
Current Property Taxes Receivable	-	296,208	296,208
Delinquent Property Taxes Receivable	-	13,977	13,977
Due from Department of Education	-	2,563	2,563
Inventory	10,043	-	10,043
Prepaid Items	901	-	901
Total Assets	<u>\$ 174,601</u>	<u>\$ 609,213</u>	<u>\$ 783,814</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 5,013	\$ -	\$ 5,013
Salaries and Benefits Payable	18	-	18
Deferred Revenue	35,257	2,288	37,545
Property Taxes Levied for Subsequent Year's Expenditures	-	575,832	575,832
Total Liabilities	<u>40,288</u>	<u>578,120</u>	<u>618,408</u>
Fund Balances			
Nonspendable	10,944	-	10,944
Restricted	123,369	31,093	154,462
Total Fund Balances	<u>134,313</u>	<u>31,093</u>	<u>165,406</u>
Total Liabilities and Fund Balances	<u>\$ 174,601</u>	<u>\$ 609,213</u>	<u>\$ 783,814</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
		<u>Post Employment Benefits Debt Service</u>	<u>Total Nonmajor Funds</u>
	<u>Food Service</u>		
REVENUES			
Local Property Taxes	\$ -	\$ 569,892	\$ 569,892
Other Local and County Revenues	8,887	-	8,887
Revenue from State Sources	35,016	8,544	43,560
Revenue from Federal Sources	277,068	-	277,068
Sales and Other Conversion of Assets	895,945	-	895,945
Total Revenues	<u>1,216,916</u>	<u>578,436</u>	<u>1,795,352</u>
EXPENDITURES			
Current			
Food Service	1,182,946	-	1,182,946
Capital Outlay			
Food Service	21,718	-	21,718
Debt Service			
Principal	-	400,000	400,000
Interest and Fiscal Charges	-	147,343	147,343
Total Expenditures	<u>1,204,664</u>	<u>547,343</u>	<u>1,752,007</u>
Excess of Revenues Over Expenditures	12,252	31,093	43,345
FUND BALANCES			
Beginning of Year	<u>122,061</u>	<u>-</u>	<u>122,061</u>
End of Year	<u>\$ 134,313</u>	<u>\$ 31,093</u>	<u>\$ 165,406</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**STATEMENT OF CHANGES IN AGENCY FUND
ASSETS AND LIABILITIES
For the Year Ended June 30, 2011**

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
ASSETS				
Cash and Investments	<u>\$ 151,247</u>	<u>\$ 327,438</u>	<u>\$ 283,677</u>	<u>\$ 195,008</u>
LIABILITIES				
Due to Student Activities	<u>\$ 151,247</u>	<u>\$ 327,438</u>	<u>\$ 283,677</u>	<u>\$ 195,008</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2011**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 24,359,214	\$ 24,359,217	\$ (3)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	23,480,082	23,480,086	(4)	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	424,691	424,691	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	2,811	2,811	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(183,273)	(183,272)	(1)	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	13,889	13,888	1	Total Revenue	\$ 1,068,044	\$ 1,068,043	\$ 1
426 \$ 25 Taconite	-	-	-	Total Expenditures	1,084,708	1,084,706	2
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	240,733	240,734	(1)
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Prekindergarten	-	-	-	08 TRUST FUND			
451 QZAB Payments	-	-	-	Total Revenue	\$ 20,698	\$ 20,699	\$ (1)
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	21,750	21,750	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance	218,955	218,955	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation/Retirement Benefits	169,914	169,914	-	Total Revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	82,000	82,000	-	422 Unassigned Fund Balance	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance	2,689,729	2,689,727	2	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ 170,360	\$ 170,361	\$ (1)
02 FOOD SERVICES FUND				Total Expenditures	229	229	-
Total Revenue	\$ 1,216,916	\$ 1,216,914	\$ 2	<i>Unassigned:</i>			
Total Expenditures	1,204,664	1,204,662	2	422 Unassigned Fund Balance	4,286,448	4,286,448	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	10,944	10,944	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	123,369	123,368	1	422 Unassigned Fund Balance	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	\$ 578,436	\$ 578,436	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	547,343	547,343	-
Total Revenue	\$ 2,226,855	\$ 2,226,857	\$ (2)	<i>Nonspendable:</i>			
Total Expenditures	2,234,862	2,234,863	(1)	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	4,621	4,621	-	464 Restricted Fund Balance	31,093	31,094	(1)
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	351,117	351,118	(1)				
432 ECFB	33,955	33,954	1				
444 School Readiness	45,101	45,103	(2)				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	31	31	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

INDEPENDENT SCHOOL DISTRICT NO. 277

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011**

<u>Federal Funding Source</u>	<u>Federal CFDA Number</u>	<u>Grant Name</u>	<u>Expenditures</u>
Through Minnesota Department of Education			
USDOA	10.555	Commodities Programs (Cluster)	\$ 42,521
USDOA	10.553	School Breakfast Program (Cluster)	20,490
USDOA	10.555	Child Nutrition Type A Lunch (Cluster)	213,414
USDOA	10.556	Special Milk Program (Cluster)	643
Total Child Nutrition Cluster			<u>277,068</u>
USDOED	84.010	Title I, Part A (Cluster)	220,653
USDOED	84.389	ARRA Targeted Funds Title I, Part A (Cluster)	17,108
Total Title I, Part A Cluster			<u>237,761</u>
USDOED	84.027	Special Education (Cluster)	498,151
USDOED	84.173	Special Education Early Childhood (Cluster)	28,297
USDOED	84.391	ARRA IDEAS Part B (Cluster)	233,671
USDOED	84.392	ARRA IDEAS Part B Preschool Grant For Children with Disabilities (Cluster)	7,234
USDOED	84.027	IDEAS Part B Discretionary Continuous Improvement Monitoring Process (Cluster)	4,891
USDOED	84.173	IDEAS Part B Discretionary Professional Development (Cluster)	780
Total Federal Special Education Cluster			<u>773,024</u>
USDOED	84.186	Title IV, Part A - Safe Drug Free Schools	1,607
USDOED	84.410	ARRA Education Jobs Fund	327,976
USDOED	84.367	Title II, Part A - Improving Teacher Quality	80,432
USDOED	84.393	ARRA IDEA Part C Infants and Toddlers Ages Birth through Two (Cluster)	5,204
Through Independent School District No. 284			
USDOED	84.181	Infants and Toddlers (Cluster)	11,639
Total Infants and Toddlers Cluster			<u>16,843</u>
Through Independent School District No. 287			
USDOED	84.048A	Carl Perkins	10,819
Total Federal Expenditures			<u>\$ 1,725,530</u>

INDEPENDENT SCHOOL DISTRICT NO. 277

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – INVENTORY

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

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

To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2011. 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

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

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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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*, identified as Audit Finding 11-01, to be a 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 consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*, identified as Audit Finding 02-01, to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the District in a separate letter dated November 7, 2011.

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

This report is intended solely for the information and use of 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.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd." followed by a small circular mark.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 7, 2011



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

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

COMPLIANCE

We have audited the compliance of Independent School District No. 277, Minnetrista, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Independent School District No. 277, Minnetrista, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 a material weakness, 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.

A handwritten signature in cursive script, reading 'Kern, DeWenter, Viere, Ltd.'.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 7, 2011

INDEPENDENT SCHOOL DISTRICT NO. 277

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2011**

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 11-01
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 02-01
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	84.027, 84.173, 84.391 and 84.392
Name of Federal Program or Cluster:	Special Education Cluster
CFDA No.:	84.410
Name of Federal Program or Cluster:	ARRA Education Jobs Fund
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. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data requires adequate controls to ensure all required adjustments to the financial statements are properly recorded.

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 the 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:

Internal controls that fail to identify necessary adjustments could result in material misstatements to the financial statements.

Cause:

There are a limited number of office employees to catch all necessary adjustments.

Recommendation:

Thoroughly review activity for the District throughout the year and ensure all necessary adjustments 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
Continue to record capital leases in the future and be sure to account for entire principal cost of the lease at the inception of the lease. In the case of the copy machine lease, the next one will occur in July 2016.

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 11-01 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

3. Official Responsible for Ensuring CAP
Megan Berberick, Director of Finance, 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, 2012.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

Audit Finding 02-01

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 adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2011, the District had a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Questioned Costs:

None

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 02-01 (Continued)

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

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 District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.
3. Official Responsible for Ensuring CAP
Megan Berberick, Director of Finance, 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, 2012.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2011

SECTION IV – SUMMARY OF PRIOR AUDIT FINDING

Audit Finding 10-01

In fiscal year 2010, we found an employee that was miscoded to the Title I Federal Program. This error was not discovered internally as a result of the District's existing internal controls. While an adjustment was made to remove the unallowable cost, the District's internal control did not find the error.

CORRECTIVE ACTION TAKEN:

In fiscal year 2011, we did not note any employees that were miscoded to the Title I Federal Program.

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REPORT ON LEGAL COMPLIANCE

To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. Our study included all of the listed categories.

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

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

A handwritten signature in cursive script, reading "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 7, 2011

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND CORRECTIVE
ACTION PLANS ON LEGAL COMPLIANCE
June 30, 2011

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Update Collateral Assignment Agreement

Minnesota Statutes 118A.03, subd. 4 requires the written collateral assignment shall recite, upon default, the financial institution shall release to the District on demand, free of exchange or any other charges, the collateral pledged.

During our legal compliance audit, it was noted the District's collateral assignment agreement does not require the release of collateral upon demand.

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 District shall update its collateral assignment agreement in order to be in compliance with *Minnesota Statutes* 118A.03, subd. 4.
3. Official Responsible for Ensuring CAP
Megan Berberick, Director of Finance, 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, 2012.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

INDEPENDENT SCHOOL DISTRICT NO. 277
SCHEDULE OF FINDINGS AND CORRECTIVE
ACTION PLANS ON LEGAL COMPLIANCE
June 30, 2011

PRIOR YEAR LEGAL COMPLIANCE FINDINGS:

Obtain Sufficient Collateral

Minnesota Statutes 118A.03 requires all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance. If irrevocable standby letters of credit from federal home loan banks are used, the collateral amount must be equal to the amount of the excess deposits plus interest at the close of the banking day.

During our 2010 audit, we noted the District's deposits at one bank were under collateralized by \$ 336,919 at June 30, 2010. Additional collateral of \$ 370,611 was needed for these deposits to be fully collateralized.

CORRECTIVE ACTION TAKEN:

The District had sufficient collateral for all bank accounts as of June 30, 2011.

Timely Submission of Report of Outstanding Indebtedness to the County

Minnesota Statutes 471.70 states the principal accounting officer of the district must report their outstanding bonded indebtedness and the purpose for the issue of the debt as of December 31 by February 1 of the following year to the County Auditor in which the district resides.

During our 2010 audit, we noted the District did not report the bonded indebtedness as of December 31, 2009 to Hennepin County by February 1, 2010.

CORRECTIVE ACTION TAKEN:

The District properly reported the bonded indebtedness of the District as of December 31, 2010 to Hennepin County by February 1, 2011.