

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2009

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2009

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BEMIDJI, MINNESOTA
JUNE 30, 2009

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INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
YEAR ENDED JUNE 30, 2009

OFFICIAL DIRECTORY

July 1, 2008
to
December 31, 2008

January 1, 2009
to
June 30, 2009

School Board Members and Officers

Chairperson	Ann Long-Voelkner	Carol L. Johnson
Vice-Chairperson	Carol L. Johnson	Melvin (Gene) Dillon
Clerk	Melvin (Gene) Dillon	Richard (Bill) Faver
Director	Richard (Bill) Faver	Steven H. Johnson
Director	Steven H. Johnson	Ann Long-Voelkner
Director	John D. Pogleasa	John D. Pogleasa

Administration

Superintendent	Dr. James Hess	Dr. James Hess
Director of Business Services/Treasurer	Chris Leinen, J.D.	Chris Leinen, J.D.



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Certified Public Accountants
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Bemidji, MN 56619
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INDEPENDENT AUDITORS' REPORT

**The Board of Education
Independent School District No. 31
Bemidji, 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. 31, Bemidji, Minnesota, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Independent School District No. 31, Bemidji, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31, Bemidji, Minnesota, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, Independent School District No. 31 adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of and for the year ended June 30, 2009. This statement results in the District reporting a liability for postemployment benefits other than pensions that the District provides to its employees and retirees.

Independent School District No. 31
Bemidji, Minnesota

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2009, on our consideration of Independent School District No. 31, Bemidji, Minnesota'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.

The management's discussion and analysis on pages 4 through 15, the budgetary comparison information and the schedule of funding progress for post-employment benefit plan on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Independent School District No. 31, Bemidji, Minnesota's basic financial statements. The supplementary information on pages 44 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 50 is presented for purposes of additional analysis as required by U.S. Office of Management and Budgeted Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Independent School District No. 31, Bemidji, Minnesota. Except for the items identified at the bottom of the report on page 49 as unaudited, the supplementary information and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The official directory on page 1, the items identified at the bottom of the report on page 49, and statistical information on page 51 are presented for purposes of additional analysis and are not a required part of the financial statements of Independent School District No. 31, Bemidji, Minnesota. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Miller McDonald, Inc.

December 22, 2009
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

This section of Independent School District No. 31 – Bemidji, Minnesota's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2009 include the following:

- Net assets increased by 3.08% from the prior year.
- District-wide revenues were \$57,266,220 and District-wide expenses were \$56,138,432.
- Enrollment decreased from 5378.87 to 5366.11 weighted ADM students.
- General fund balance decreased by \$660,759.
- The District retired \$3,015,000 in bond principal.
- The District adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

OVERVIEW OF THE FINANCIAL STATEMENTS

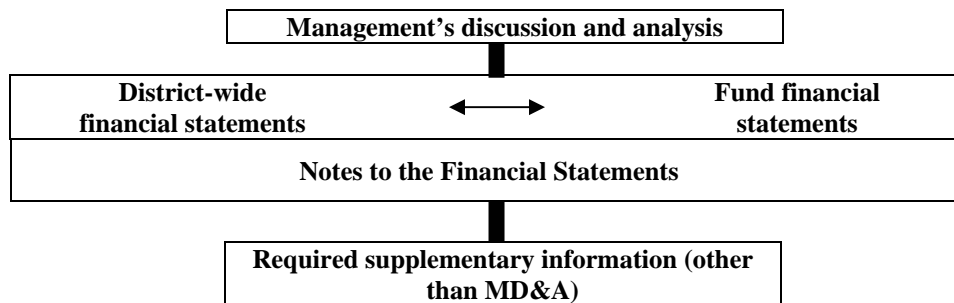
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting on the District's operations in more detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular, vocational 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 whom the resources belong.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district except fiduciary funds	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as retiree benefits and student activities
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 years' revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The district-wide statements report the District's net assets and how they 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 the 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** – The majority of the District's basic services are included within these activities; such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance the majority of these activities.

Fund Financial Statements

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

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

The District has two types of funds:

Governmental Funds – The majority 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 following the governmental funds statements that explains the relationship (or differences) between them.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities (consisting only of agency funds held for others) are reported in a separate statement of 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
(DISTRICT-WIDE FINANCIAL STATEMENTS)

Net Assets

The District's combined net assets were \$37,703,900 at June 30, 2009 (see the following table). At June 30, 2008 the net assets were \$36,576,112, with an increase of \$1,127,788 from operating activities for the year ended June 30, 2009.

	2009	2008	Net Change	
			Amount	Percent
Current and other assets	\$ 17,889,013	\$ 18,290,193	\$ (401,180)	-2.19%
Capital assets, net of depreciation	67,169,348	68,297,076	(1,127,728)	-1.65%
Total Assets	85,058,361	86,587,269	(1,528,908)	-1.77%
Current payables	14,110,040	13,972,257	137,783	0.99%
Long-term liabilities:				
Due within one year	3,752,622	3,283,889	468,733	14.27%
Due after one year	29,491,799	32,755,011	(3,263,212)	-9.96%
Total Liabilities	47,354,461	50,011,157	(2,656,696)	-5.31%
Net assets:				
Invested in capital assets, net of related debt	35,561,808	33,705,647	1,856,161	5.51%
Restricted	3,630,583	3,281,041	349,542	10.65%
Unrestricted (Deficit)	(1,488,491)	(410,576)	(1,077,915)	-262.54%
Total Net Assets	\$ 37,703,900	\$ 36,576,112	\$ 1,127,788	3.08%

Net assets increased by 3.08% for the year ended June 30, 2009. The increase was primarily the result of a net decrease in long-term debt of \$2,794,479, which was partially offset by a decrease in assets of \$1,528,908.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

Change in Net Assets

The increase in net assets occurs as a result of the District's revenues being more than its expenses for the years ended June 30, 2009 and 2008. A summary of the District's revenues and expenses, along with the amount of change and percentages for each category are as follows:

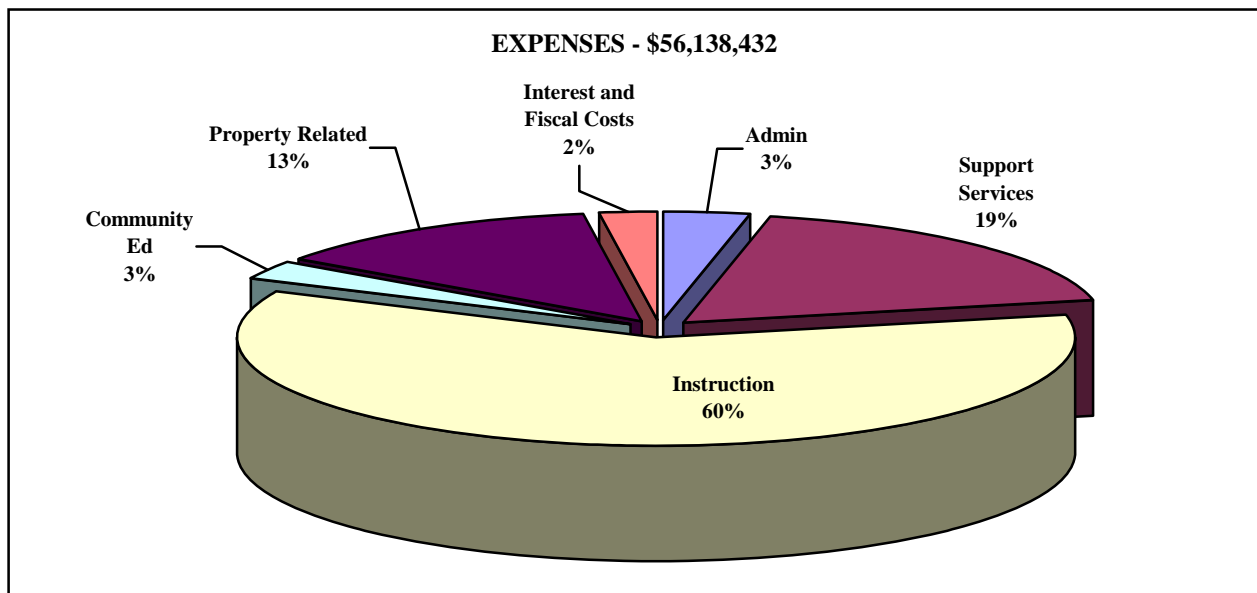
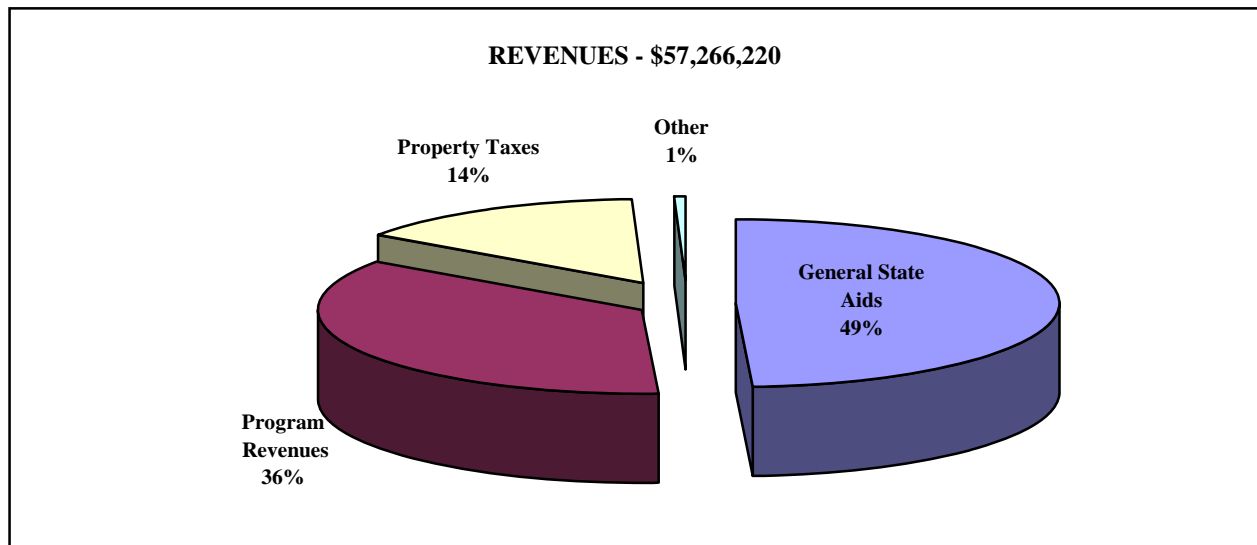
	2009		2008		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,335,619	4.08%	\$ 2,421,944	4.24%	\$ (86,325)	-3.56%
Operating Grants and Contributions	18,109,958	31.62%	17,041,737	29.86%	1,068,221	6.27%
Total Program Revenues	20,445,577	35.70%	19,463,681	34.10%	981,896	5.04%
General Revenues:						
Property Taxes	8,414,834	14.69%	7,920,727	13.88%	494,107	0.87%
Aids and Payments from State and Federal Sources	28,095,855	49.07%	28,346,998	49.67%	(251,143)	-0.44%
Other Sources	309,954	0.54%	1,343,800	2.35%	(1,033,846)	-1.81%
Total General Revenues	36,820,643	64.30%	37,611,525	65.90%	(790,882)	-1.39%
Total Revenues	57,266,220	100.00%	57,075,206	100.00%	191,014	0.33%
Expenses:						
Instructional:						
Regular Instruction	22,247,196	39.63%	22,063,224	39.83%	183,972	0.32%
Vocational Instruction	541,543	0.96%	652,871	1.18%	(111,328)	-0.20%
Exceptional Instruction	10,991,989	19.58%	9,944,944	17.95%	1,047,045	1.83%
Total Instructional	33,780,728	60.17%	32,661,039	58.96%	1,119,689	1.96%
Support Services:						
District Support Services	1,150,299	2.05%	1,208,027	2.18%	(57,728)	-0.10%
Instructional Support Services	1,632,242	2.91%	1,764,097	3.18%	(131,855)	-0.23%
Pupil Support Services	7,588,220	13.51%	7,536,102	13.61%	52,118	0.09%
Total Support Services	10,370,761	18.47%	10,508,226	18.97%	(137,465)	-0.24%
Administration	1,845,398	3.29%	1,861,728	3.36%	(16,330)	-0.03%
Community Education and Services	1,516,213	2.70%	1,561,591	2.82%	(45,378)	-0.08%
Site, Buildings and Equipment	7,183,655	12.80%	7,265,279	13.11%	(81,624)	-0.14%
Fiscal and Other Fixed Costs	138,697	0.25%	150,617	0.27%	(11,920)	-0.02%
Interest on Long-Term Debt	1,302,980	2.32%	1,391,343	2.51%	(88,363)	-0.15%
Total Expenses	56,138,432	100.00%	55,399,823	100.00%	738,609	1.29%
Change in Net Assets	\$ 1,127,788		\$ 1,675,383		\$ (547,595)	

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

For the year ended June 30, 2009, the District's total revenues were \$57,266,220 and consisted of program revenues of \$20,445,577, property taxes of \$8,414,834, general aids and payments from state sources of \$28,095,855 and other sources of \$309,954. Expenses totaling \$56,138,432 consisted of regular, vocational and exceptional instruction costs of \$33,780,728; district, instructional and pupil support services of \$10,370,761; site, buildings and equipment related costs of \$7,183,655; fiscal and fixed-cost programs of \$138,697; community education and services costs of \$1,516,213, administrative costs of \$1,845,398 and interest on long-term debt of \$1,302,980.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2009:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2009 and 2008 are as follows:

	<u>Cost of Services - 2009</u>		<u>Cost of Services - 2008</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
District and School Administration	\$ 1,845,398	\$ 1,487,311	\$ 1,861,728	\$ 1,566,450
District Support Services	1,150,299	1,150,299	1,208,027	1,208,027
Regular Instruction	22,247,196	15,936,656	22,063,224	16,201,988
Vocational Instruction	541,543	602,920	652,871	548,715
Exceptional Instruction	10,991,989	3,708,319	9,944,944	2,960,535
Community Education and Services	1,516,213	204,887	1,561,591	294,518
Instructional Support Services	1,632,242	451,621	1,764,097	482,406
Pupil Support Services	7,588,220	4,165,322	7,536,102	4,321,081
Site, Buildings and Equipment	7,183,655	6,543,843	7,265,279	6,810,462
Fiscal and Other Fixed Costs	138,697	138,697	150,617	150,617
Interest on Long-Term Debt	1,302,980	1,302,980	1,391,343	1,391,343
Total Expenses	<u>\$ 56,138,432</u>	<u>\$ 35,692,855</u>	<u>\$ 55,399,823</u>	<u>\$ 35,936,142</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS)

Fund Balances

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,088,133.

Total Fund Balances decreased in the amount of \$584,259 from the end of the prior year. The decrease was primarily the result of expenditures exceeding revenues by \$725,619 in the General Fund which was partially offset by increases in non-major funds of \$154,306. The General Fund ended with a decrease in its fund balance of \$660,759. The Debt Redemption Fund had a net decrease in fund balance of \$77,806.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

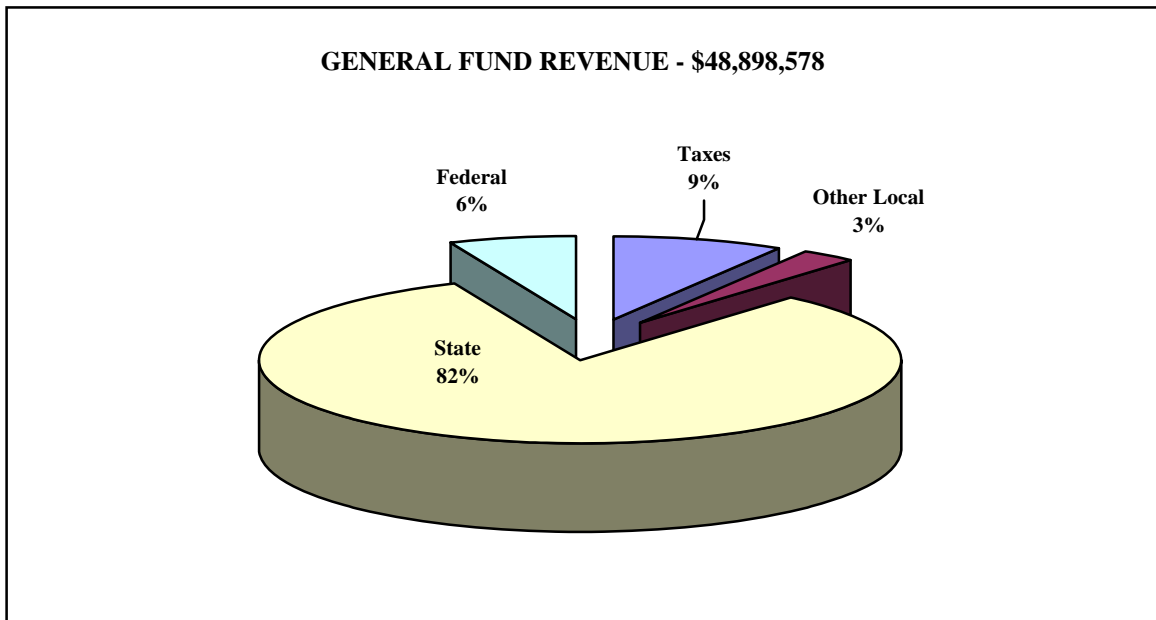
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$57,173,240 while total expenditures were \$57,822,359. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 48,898,578	\$ 49,624,197	\$ 64,860	\$ (660,759)
Food Service Fund	2,451,658	2,367,776	-	83,882
Community Service Fund	1,588,529	1,518,105	-	70,424
Debt Redemption Fund	4,234,475	4,312,281	-	(77,806)
Totals	<u>\$ 57,173,240</u>	<u>\$ 57,822,359</u>	<u>\$ 64,860</u>	<u>\$ (584,259)</u>

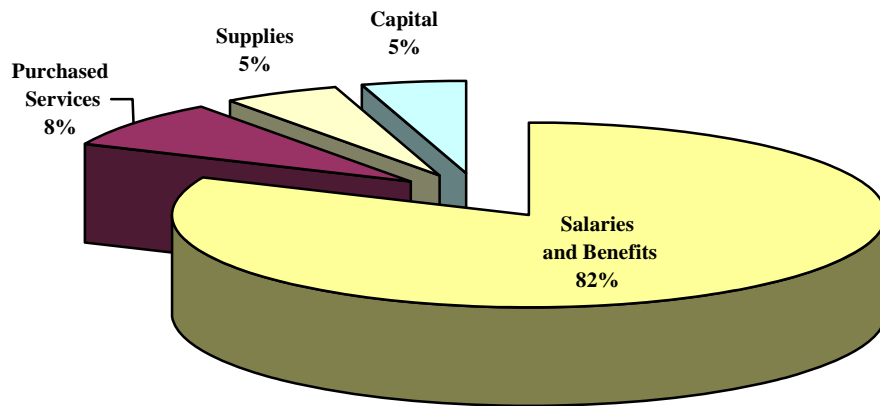
The following graphs are presented for the general fund revenues and expenditures:



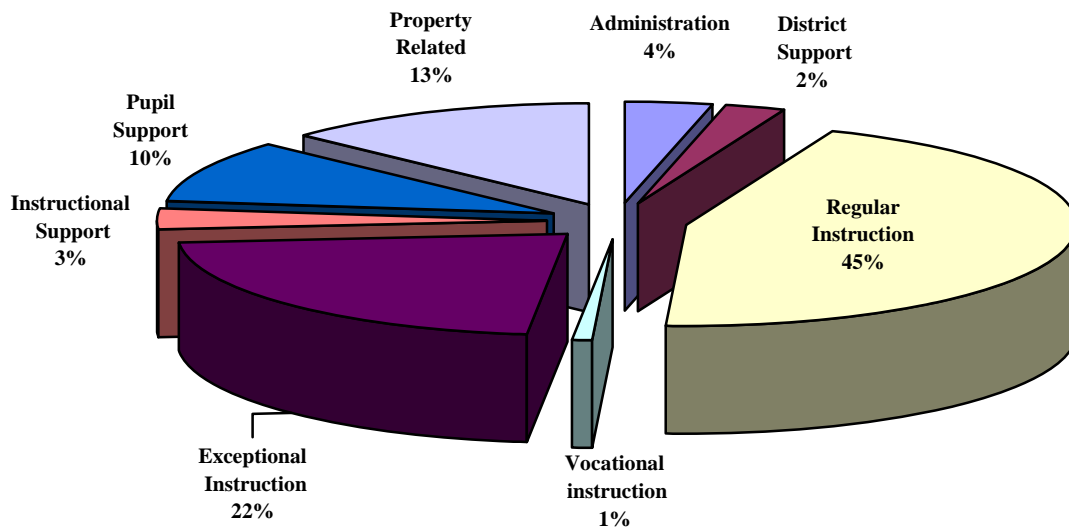
INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

GENERAL FUND EXPENDITURES BY OBJECT - \$49,624,197



GENERAL FUND EXPENDITURES BY PROGRAM - \$49,624,197



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

General Fund Budgetary Highlights

During the year ended June 30, 2009, the District made several revisions to its operating budget. The first revision was planned and necessary because an initial budget, adopted prior to June 30, 2008, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the State of Minnesota a budget is also an appropriating document. The first revision occurred in the fall of 2008 after student enrollment numbers, staffing levels and other significant informational items were more available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

Although the District's general fund final budget anticipated that expenditures would exceed revenues and other financing uses by \$885,861 the actual results for the year reported expenditures over revenues and other financing sources in the amount of \$660,759. This occurred primarily because actual revenues and other financing sources were less than budgeted by \$180,515, but actual expenditures were \$405,617 less than budgeted. These variances in the budget were primarily attributed to the following:

Revenues

- Local property taxes were \$134,488 less than the budgeted amount and other local revenues were \$495,226 less than the budgeted amount.
- Revenues from state sources were more than the budgeted amount by \$730,258, but revenues from federal sources were \$200,945 less than the budgeted amount.
- Investment earnings were \$123,170 less than the budgeted amount.

Expenditures

- Regular and vocational instruction expenses were a combined \$398,863 less than budgeted. This was partially offset by exceptional instruction expenses which were \$174,703 more than the budgeted amount.
- Instructional support services were \$324,052 less than budgeted.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year the District added \$1,436,924 of capital assets to its inventory records. Additions included \$516,564 of land improvements, \$566,231 of building improvements, \$47,636 of equipment, and \$306,493 of transportation vehicles. The District also disposed of six fully depreciated vehicles, including three buses, with an original cost of \$186,283 and \$28,659 of nearly fully depreciated equipment.

Long-Term Debt

As of June 30, 2009 the District's long-term indebtedness totaled \$33,244,421. This consisted of bonded indebtedness of \$31,895,000, unamortized bond discount of \$287,460, and severance payable of \$1,273,148. During the year the District retired \$3,015,000 of outstanding bond principal and paid \$1,296,850 of interest on long-term outstanding bonds payable and severance payments of \$174,323.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, as of and for the year ended June 30, 2009. This statement results in the District reporting an increase in the liability for postemployment benefits other than pensions that the District provides to its employees and retirees of \$363,733.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Political Environment

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the District receives the single largest state aid, is set at \$5,124 and will remain the same in the next fiscal year.

Labor Force

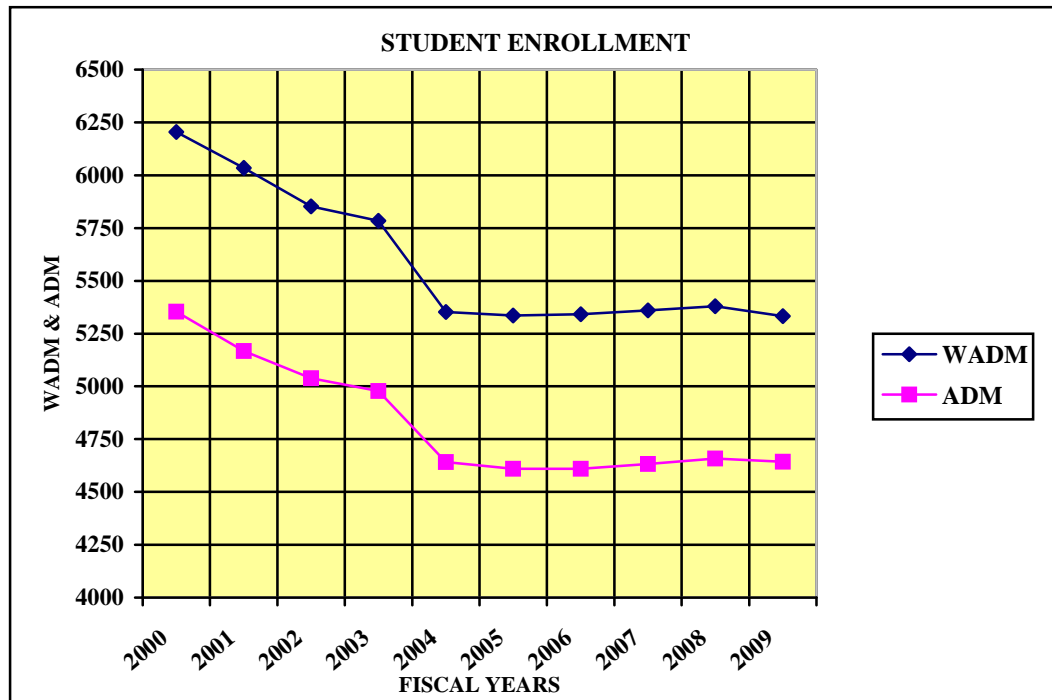
Labor contracts, which are in effect through June 30, 2009, were negotiated for the two-year period beginning July 1, 2007. Salaries, wages and benefits account for 82% of the District's general fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FACTORS BEARING ON THE DISTRICT’S FUTURE (Continued)

Student Enrollment

The following graph shows the student enrollment trend for both weighted average daily membership (WADM) and average daily membership (ADM) for the past ten-years.



CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have any questions about this report or would like additional information, contact Chris Leinen, J.D., Director of Business Services, at District offices located at, 3300 Gillett Drive NW, Bemidji, Minnesota 56601.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Cash and Investments		\$ 7,399,589
Cash With Fiscal Agent		49,500
Property Taxes Receivable		4,664,615
Due from Other Governmental Units		5,386,345
Other Accounts Receivable		35,599
Inventories		321,279
Prepaid Expenditures		32,086
Capital Assets:		
Land	\$ 2,630,742	
Depreciable Capital Assets, Net of Depreciation	<u>64,538,606</u>	<u>67,169,348</u>
Total Assets		<u>85,058,361</u>

LIABILITIES

Salaries Payable		3,405,157
Accounts Payable		480,599
Interest Payable		310,858
Due to Other Governmental Units		39,458
Payroll Deductions and Employer Contributions		499,329
Accrued Compensated Absences Payable		223,284
Deferred Revenue		621,664
Property Taxes Levied for Subsequent Years' Expenditures		8,529,691
Long-Term Liabilities:		
Portion Due Within One Year	3,752,622	
Portion Due After One Year	<u>29,491,799</u>	<u>33,244,421</u>
Total Liabilities		<u>47,354,461</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt		35,561,808
Restricted for:		
State Mandated Reserves		2,314,074
Debt Redemption		1,316,509
Unrestricted (Deficit)		<u>(1,488,491)</u>
Total Net Assets		<u>\$ 37,703,900</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
Governmental Activities				
District and School Administration	\$ 1,845,398	\$ -	\$ 358,087	\$ (1,487,311)
District Support Services	1,150,299	-	-	(1,150,299)
Regular Instruction	22,247,196	528,563	5,781,977	(15,936,656)
Vocational Instruction	541,543	-	(61,377)	(602,920)
Exceptional Instruction	10,991,989	-	7,283,670	(3,708,319)
Community Education and Services	1,516,213	629,857	681,469	(204,887)
Instructional Support Services	1,632,242	-	1,180,621	(451,621)
Pupil Support Services	7,588,220	1,119,612	2,303,286	(4,165,322)
Site, Buildings and Equipment	7,183,655	57,587	582,225	(6,543,843)
Fiscal and Other Fixed Costs	138,697	-	-	(138,697)
Interest on Long-Term Debt	1,302,980	-	-	(1,302,980)
Total Governmental Activities	<u>\$ 56,138,432</u>	<u>\$ 2,335,619</u>	<u>\$ 18,109,958</u>	<u>(35,692,855)</u>
General Revenues:				
Property Taxes:				
				4,287,726
				287,405
				3,839,703
				28,095,855
				67,076
				178,018
				<u>36,755,783</u>
				<u>64,860</u>
				1,127,788
				<u>36,576,112</u>
				<u>\$ 37,703,900</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash and Investments	\$ 3,609,353	\$ 3,492,585	\$ 297,651	\$ 7,399,589
Cash with Fiscal Agent	49,500	-	-	49,500
Property Taxes Receivable	2,232,221	2,239,925	192,469	4,664,615
Due from Other Funds	59,506	-	-	59,506
Due from Other Governmental Units	5,089,371	36,623	260,351	5,386,345
Other Accounts Receivable	35,599	-	-	35,599
Inventories	303,780	-	17,499	321,279
Prepaid Expenditures	32,086	-	-	32,086
Total Assets	<u>\$ 11,411,416</u>	<u>\$ 5,769,133</u>	<u>\$ 767,970</u>	<u>\$ 17,948,519</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 3,317,226	\$ -	\$ 87,931	\$ 3,405,157
Accounts Payable	453,899	-	26,700	480,599
Due to Other Funds	-	-	59,506	59,506
Due to Other Minnesota School Districts	38,685	-	-	38,685
Due to Other Governmental Units	773	-	-	773
Payroll Deductions and Employer Contributions	485,933	-	13,396	499,329
Deferred Revenue	620,834	-	830	621,664
Deferred Revenue - Delinquent Taxes	91,384	124,691	8,907	224,982
Property Taxes Levied for Subsequent Years' Expenditures	4,028,517	4,141,766	359,408	8,529,691
Total Liabilities	<u>9,037,251</u>	<u>4,266,457</u>	<u>556,678</u>	<u>13,860,386</u>
<u>Fund Equity</u>				
Reserved Fund Balances:				
Staff Development	215,577	-	-	215,577
Deferred Maintenance	24,106	-	-	24,106
Health and Safety	(1,030,476)	-	-	(1,030,476)
Severance Pay	300,000	-	-	300,000
Operating Capital	1,416,770	-	-	1,416,770
Alternate Program	2,268	-	-	2,268
Gifted and Talented	102,768	-	-	102,768
Safe Schools Levy	866	-	-	866
Community Education	-	-	(31,521)	(31,521)
Early Childhood and Family Education	-	-	121,220	121,220
School Readiness	-	-	35,381	35,381
Adult Basic Education	-	-	30	30
Unreserved-Undesignated Fund Balances	<u>1,342,286</u>	<u>1,502,676</u>	<u>86,182</u>	<u>2,931,144</u>
Total Fund Equity	<u>2,374,165</u>	<u>1,502,676</u>	<u>211,292</u>	<u>4,088,133</u>
Total Liabilities and Fund Equity	<u>\$ 11,411,416</u>	<u>\$ 5,769,133</u>	<u>\$ 767,970</u>	<u>\$ 17,948,519</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances - Governmental Funds		\$ 4,088,133
 Amounts reported for governmental activities in the statement of net assets are different because:		
 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Cost	\$ 101,353,447	
Accumulated Depreciation	(34,184,099)	
Net Depreciated Value of Capital Assets		67,169,348
 Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
		(310,858)
 The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues.		
		224,982
 Severance and compensated absences (vacation) payables are not due and payable in the current period and therefore are not reported as a liability in the funds.		
Compensated Absences Payable	(223,284)	
Other Postemployment Benefits (OPEB)	(363,733)	
Severance Payable	(1,273,148)	(1,860,165)
 Bonds payable, net of unamortized discount of \$287,460, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
		(31,607,540)
 Total Net Assets - Governmental Activities		 \$ 37,703,900

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Revenues</u>				
Local Property Taxes	\$ 4,269,658	\$ 3,830,684	\$ 286,372	\$ 8,386,714
Other Local and County Revenues	1,193,695	-	655,600	1,849,295
Revenues from State Sources	40,218,830	366,229	726,095	41,311,154
Revenues from Federal Sources	3,091,179	-	1,249,825	4,341,004
Sales and Other Conversions of Assets	98,386	-	1,119,612	1,217,998
Investment Earnings	26,830	37,562	2,683	67,075
Total Revenues	<u>48,898,578</u>	<u>4,234,475</u>	<u>4,040,187</u>	<u>57,173,240</u>
<u>Expenditures</u>				
District and School Administration	1,828,351	-	-	1,828,351
District Support Services	1,139,490	-	-	1,139,490
Regular Instruction	22,216,633	-	-	22,216,633
Vocational Instruction	517,769	-	-	517,769
Exceptional Instruction	10,867,645	-	-	10,867,645
Community Education and Services	-	-	1,503,954	1,503,954
Instructional Support Services	1,594,226	-	-	1,594,226
Pupil Support Services	4,918,842	-	2,381,927	7,300,769
Site, Buildings, and Equipment	6,402,544	-	-	6,402,544
Fiscal and Other Fixed Costs	138,697	-	-	138,697
Debt Service:				
Principal Retirement	-	3,015,000	-	3,015,000
Interest and Fiscal Fees	-	1,297,281	-	1,297,281
Total Expenditures	<u>49,624,197</u>	<u>4,312,281</u>	<u>3,885,881</u>	<u>57,822,359</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	(725,619)	(77,806)	154,306	(649,119)
<u>Other Financing Source</u>				
Proceeds from Sale of Building	64,860	-	-	64,860
<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</u>	(660,759)	(77,806)	154,306	(584,259)
<u>Fund Balances, Beginning of Year</u>	<u>3,034,924</u>	<u>1,580,482</u>	<u>56,986</u>	<u>4,672,392</u>
<u>Fund Balances, End of Year</u>	<u>\$ 2,374,165</u>	<u>\$ 1,502,676</u>	<u>\$ 211,292</u>	<u>\$ 4,088,133</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (584,259)

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

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

Capital Outlay	\$ 1,436,924	
Loss on Disposal of Assets	(2,388)	
Depreciation	<u>(2,562,264)</u>	(1,127,728)

The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues.

28,120

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless when it is due.

Accrued Interest at June 30, 2009	(310,858)	
Accrued Interest at June 30, 2008	<u>336,270</u>	25,412

Compensated absences (vacation payable) are reported in the statement of activities do not require the use of the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences at June 30, 2009	(223,284)	
Compensated Absences at June 30, 2008	<u>215,048</u>	(8,236)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the statement of assets. In the current period these amounts consist of:

Bond Principal Retirement	3,015,000	
Amortization of Bond Discount	(31,111)	
Net Increase in Other Post Employment Benefits (OPEB)	(363,733)	
Net Decrease in Severance Payable	<u>174,323</u>	<u>2,794,479</u>

Change in Net Assets of Government Activities \$ 1,127,788

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
ALL AGENCY FUNDS
JUNE 30, 2009

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and Investments	<u>\$ 456,580</u>
<u>Liabilities</u>	
Payroll Deductions	\$ 130,373
Due to Student Organizations	<u>326,207</u>
<u>Total Liabilities</u>	<u>\$ 456,580</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Independent School District No. 31 have been prepared in conformity with U. S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2009. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

A. Reporting Entity

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

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for component units include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

B. Financial Statement Presentation

The District-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 fiduciary funds. The Fiduciary Funds are only reported in the Statement of Fiduciary Net Assets at the Fund Financial Statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses. 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 capital requirements of a particular function or segment. Operating grants include operating-specific grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for purposes 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 each function.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the District-wide financial statements. There were no inter-fund activities in the current year.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (agency funds). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2008 payable 2009 levy has been recognized as revenue during the current year, as discussed in Note 4.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Other revenues are recognized when susceptible to accrual, i.e., when they become both 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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Description of Funds

The existence of the various District funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. A description of the major governmental funds and fiduciary funds in this report are as follows:

Governmental Funds

General Fund – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the District, which are not accounted for in other District funds.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Fiduciary Funds

Agency Funds – Account for assets held solely in a custodial capacity.

All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

D. Assets, Liabilities, Net Assets and Fund Balances

Cash and Investments - Cash balances for all funds, including cash equivalents, but excluding Agency Funds, are maintained on a combined basis and invested, to the extent possible, in allowable investments. The District's general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term 'nonparticipating' means that the investment's value does not vary with market interest rate changes.

Cash with Fiscal Agent - Cash held by Associated Bank of Green Bay, WI consisting of good faith proceeds of the 2009 general obligation taxable bonds for other post-employment benefit obligations. Remaining bond proceeds were received on July 15, 2009 after bond sale closing.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable represents current and delinquent taxes receivable at June 30, 2009. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivables are taxes collectible for the 2002 through 2008 calendar years that remain uncollected.

Due From Other Governmental Units are amounts due from other governmental units that consist of amounts primarily due from the other Minnesota school districts, Hubbard County, the Minnesota Department of Education and from the Federal Government through the Minnesota Department of Education for state and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

Inventories consist of purchased food commodities, supplies and donated United States Department of Agriculture (USDA) commodities. Purchased food and supplies are recorded at the lower of cost (first-in, first-out) or market method. The donated USDA commodities are stated at standardized cost as determined by the USDA.

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.

Capital Assets are capitalized at historical cost, or estimated historical cost based on an inventory dated June 30, 2002. Donated assets are recorded as capital assets at their estimated fair marked value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since 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 purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Deferred Revenue represents revenues, other than property taxes, collected before they are earned.

Deferred Revenue – Delinquent Property Taxes represents property taxes for the years 2002 through 2008 that remain uncollected.

Property Taxes Levied for Subsequent Years' Expenditures consist of current levies of local taxes, including portions assumed by the State that will be recognized as revenue in the next fiscal year beginning July 1, 2009, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Net Assets represent the difference between assets and liabilities in the District-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 District-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Equity – In the fund financial statements fund balances of the District are either reserved or unreserved. Reserved fund balances represent available resources dedicated for special purposes. Unreserved fund balances represent resources available for current and future year's expenditures.

E. Compensated Absences

Vacation Pay – Certified staff and certain administrative employees do not receive paid vacations but are paid only for the number of days they are required to work, each in accordance with their respective contracts. Non-certified and other administrative employees are allowed vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Accrued vacation time must be taken within one year after the end of the fiscal year. Compensated absences payable for the amount representing the accumulated vacation payable at June 30, 2009 for these employees is reported in the District-wide financial statements.

Sick Leave and Severance Pay – Employees are allowed to accrue sick leave at varying amounts each year, and accumulate within limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Upon completion of 15 years of service and notice of retirement for teaching staff and certain other employee groups, unused sick leave is convertible to severance pay upon an employee's retirement. Severance is not granted to an employee who is discharged by the District. See Note 10 for severance liability amount.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Under the provisions of the various employee and union contracts the District provides health and dental care coverage until age 65 for retirees and if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. The amount was actuarially determined in accordance with GASB 45 at June 30, 2009. GASB 45 was implemented prospectively, meaning that the net OPEB obligation was zero at transition.

F. Use of Estimates

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

NOTE 2 – Stewardship, Compliance, and Accountability

A. Fund Balance Deficits

The District had a deficit in the following fund balances:

General Fund:		
Reserved for Health and Safety		\$ 1,030,476
Community Service:		
Reserved for Community Education		31,521

The above deficits will be eliminated by future tax levies and/or budgeted expenditure constraints in subsequent years.

B. Excess of Expenditures Over Budget

Expenditures exceeded the budget for the following fund:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Special Revenue Fund:			
Food Service Fund	\$ 2,244,012	\$ 2,367,776	\$ 123,764

The above overage was considered by District management to be the result of necessary expenditures critical to operations and was approved by the School Board.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – Deposit and Investments

The District’s cash and investments are as follows:

	Governmental	
	Activities/	Fiduciary
	Funds	Funds
	_____	_____
Pooled Depository Accounts:		
Checking	\$ 1,547,040	\$ -
Savings	139,529	-
Student Activity Depository Accounts - Checking and Money Market	-	326,207
Pooled Investments - MSDLAF+	5,713,020	-
Non-pooled Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	130,373
Total Cash and Investments	<u>\$ 7,399,589</u>	<u>\$ 456,580</u>

A. Deposits

Authority - In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2009.

B. Investments

Authority - Minnesota Statutes authorize the District to invest in the following types of investments:

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – Deposit and Investments (Continued)

3. general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers' acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and maturities in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District has not adopted a formal investment policy. The District's only investment is through the Minnesota School District Liquid Asset Fund Plus (MSDLAF+), which is an external investment pool that meets the definition of a 2a7-like pool. Because the District's only investment is through the MSDLAF+ there are no disclosure requirements for custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Credit Risk - The MSDLAF+ is rated AAAM by Standard and Poor's. The rating signifies excellent safety of invested principal and superior capacity to maintain a \$1.00 per share net asset value.

NOTE 4 – Property Taxes

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15, and October 15. The County provides tax settlements in installments to districts two times a year, on or before June 30 and December 30.

Prior year's taxes, which remain unpaid at June 30, are classified as delinquent taxes receivable and the portion not receivable within 60 days is offset by deferred revenue because they are not available to finance current expenditures.

The maximum amount of property taxes the District may levy is subject to state levy limitations.

The total net tax capacity for levy year 2008 (payable in 2009) was \$28,937,846 with a referendum market value of \$2,150,025,141. The tax capacity rate was 21.499% and the referendum rate was 0.12137%.

Current property taxes receivable consist of the current tax levy less collection prior to June 30. The current tax levy, net of a state mandated property tax shift, is offset by property taxes levied for subsequent years, a deferred revenue account.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2009 are as follows:

	General Fund	Debt Redemption Fund	Other Governmental Funds	Totals
Other Minnesota School Districts	\$ 235,679	\$ -	\$ -	\$ 235,679
Minnesota Department of Education:				
State Aids and Grants	3,859,786	36,623	72,785	3,969,194
Federal Aids and Grants	985,923	-	187,566	1,173,489
Hubbard County	7,983	-	-	7,983
Totals	<u>\$ 5,089,371</u>	<u>\$ 36,623</u>	<u>\$ 260,351</u>	<u>\$ 5,386,345</u>

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Sales and Retirements	Ending Balance
Non-depreciable Capital Assets				
Land	\$ 2,630,742	\$ -	\$ -	\$ 2,630,742
Construction in Progress	1,062,418	-	1,062,418	-
Total Non-depreciable Capital Assets	<u>3,693,160</u>	<u>-</u>	<u>1,062,418</u>	<u>2,630,742</u>
Depreciable Capital Assets:				
Land Improvements	2,602,299	533,495	-	3,135,794
Buildings	83,549,909	1,611,718	-	85,161,627
Equipment	10,286,097	354,129	214,942	10,425,284
Total Depreciable Capital Assets	<u>96,438,305</u>	<u>2,499,342</u>	<u>214,942</u>	<u>98,722,705</u>
Total Capital Assets	<u>100,131,465</u>	<u>2,499,342</u>	<u>1,277,360</u>	<u>101,353,447</u>
Accumulated Depreciation:				
Land Improvements	1,359,600	130,948	-	1,490,548
Buildings	23,883,261	1,667,992	-	25,551,253
Equipment	6,591,528	763,324	212,554	7,142,298
Total Accumulated Depreciation	<u>31,834,389</u>	<u>2,562,264</u>	<u>212,554</u>	<u>34,184,099</u>
Capital Assets, Net of Depreciation	<u>\$ 68,297,076</u>	<u>\$ (62,922)</u>	<u>\$ 1,064,806</u>	<u>\$ 67,169,348</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – Capital Assets (Continued)

Depreciation expense was charged to the following program services:

District Support Services	\$ 1,702
Regular Instruction	26,449
Vocational Instruction	18,887
Exceptional Instruction	43,085
Instructional Support Services	26,635
Pupil Support Services	509,684
Site, Buildings and Equipment	1,935,822
Total	<u>\$ 2,562,264</u>

NOTE 7 – Pension Plans

A. Teachers Retirement Association

Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the 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, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute, 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 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>Step Rate Formula</u>	<u>Coordinated</u>	<u>Basic</u>
1 st ten years prior to July 1, 2006	1.2 percent per year	2.2 percent per year
1 st ten years on or after July 1, 2006	1.4 percent per year	2.2 percent per year
All other years prior to July 1, 2006	1.7 percent per year	2.7 percent per year
All other years on or after July 1, 2006	1.9 percent per year	2.7 percent per year

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – Pension Plans (Continued)

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic 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 to 5.5 percent per year.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon 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 benefit provisions. The report may be accessed at the TRA website www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-1855
651-296-6449
800-657-3853

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – Pension Plans (Continued)

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates were 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for coordinated members rose to 5.5 percent and 9.5 percent for basic members. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2008, was approximately \$3.645 billion.

The District's contributions for the years ending June 30, 2009, 2008, and 2007 were \$1,179,477, \$1,170,485, and \$1,050,748, respectively, equal to the required contributions for each year as set by state statute.

B. Public Employees Retirement Association

Plan Description

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

PERF members belong to either the Coordinated Plan or the 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF 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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – Pension Plans (Continued)

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These contributions are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 6.5% for Coordinated Plan members in 2008, and 6.75% for Coordinated Plan members in 2009.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2009, 2008, and 2007 were \$680,625, \$624,175, and \$580,722, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

NOTE 8 - Post-Employment Health Care Benefits

On July 1, 2008, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of July 1, 2007.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 - Post-Employment Health Care Benefits (Continued)

A. Plan Description

The District operates a single employer retiree benefit plan for both health and dental insurance in which retiring employees and their spouses may participate in at their expense. Retiring employees are eligible to participate only if they are a participant in the District's health and dental insurance at the time of retirement. There are 800 active participants and 97 retired participants including 14 spouses of retired participants. The retired employees are responsible for reimbursing the District for 100% of the premium cost for their health and dental plans. If a retiree chooses to drop their participation in either plan they are not able to return to the plan. Upon the death of a retiree the retiree's spouse can continue participation only if the spouse was covered under the plan at the time of the retiree's death.

B. Funding Policy

Retiree's who participate in the District's health and/or dental insurance plan pay 100% of their premium cost(s). There is no district contribution; however, as calculated in the District's actuarial study there is an implicit rate subsidy cost to the district as a result of retiree's participating in the health and dental plans. The implicit rate subsidy cost calculation is based on a set of input data to determine the implied cost effect to the district for retiree participation. Per the actuarial study performed the District's implicit rate subsidy cost as of June 30, 2009 was \$237,663.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 826,660
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>826,660</u>
Contributions Made	<u>(462,927)</u>
Increase in Net OPEB Obligation	363,733
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	<u><u>\$ 363,733</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 – Post-Employment Health Care Benefits (Continued)

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2009	\$ 826,660	59.9%	\$ 363,733

D. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the District’s unfunded actuarial accrued liability (UAAL) was \$5,472,770 the annual payroll for active employees covered by the plan in the actuarial valuation was \$29,456,376 for a ratio of UAAL to covered payroll of 18.58%.

Actuarial valuations of an ongoing plan 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 healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 9.0%, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 was 28 years.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 - Long-Term Debt

A summary of changes in long-term debt is as follows:

	Beginning	Additions	Payments and	Ending	Current Amounts	
	Balance		Retirements	Balance	Principal	Interest
General Obligation Bonds:						
2004 Refunding Bonds	\$ 2,370,000	\$ -	\$ 560,000	\$ 1,810,000	\$ 590,000	\$ 55,550
2005 Refunding Bonds	32,540,000	-	2,455,000	30,085,000	2,530,000	1,150,850
Total General Obligation Bonds	34,910,000	-	3,015,000	31,895,000	3,120,000	1,206,400
Unamortized Bond Discounts						
Total General Obligation Bonds, Net of Unamortized Bond Discounts	(318,571)	-	(31,111)	(287,460)	(31,111)	-
	34,591,429	-	2,983,889	31,607,540	3,088,889	1,206,400
Separation and Retirement Benefits Payable						
Other Post Employment Benefits (OPEB)	-	826,660	462,927	363,733	363,733	-
Severance Payable	1,447,471	-	174,323	1,273,148	300,000	-
Total Separation and Retirement Benefits Payable	1,447,471	826,660	637,250	1,636,881	663,733	-
Total Long-Term Debt	\$ 36,038,900	\$ 826,660	\$ 3,621,139	\$ 33,244,421	\$ 3,752,622	\$ 1,206,400

General obligation bonds are comprised of the following individual issues at June 30, 2009:

\$4,260,000 General Obligation Refunding Bonds of 2004, issued on November 1, 2004 with interest rates ranging from 3.00% to 3.20%. Interest payments commence on August 1, 2005, and are due each February 1 and August 1 thereafter through year 2012. Principal payments commence on February 1, 2006 and each year thereafter through 2012 in amounts ranging from \$550,000 to \$705,000.

\$34,910,000 General Obligation Refunding Bonds, Series 2005A, issued on January 1, 2005 with interest rates ranging from 3.00% to 4.50%. Interest payments commence on October 1, 2005 and are due each April 1 and October 1 thereafter through year 2019. Principal payments commence on April 1, 2008 and each year thereafter through 2019 in amounts ranging from \$2,370,000 to \$3,600,000.

The annual requirements to amortize the general obligation bonds at June 30, 2009 are as follows:

Fiscal Year Ended	Bond Principal	Bond Interest	Total
2010	\$ 3,120,000	\$ 1,206,400	\$ 4,326,400
2011	3,210,000	1,112,800	4,322,800
2012	3,325,000	1,009,962	4,334,962
2013	2,800,000	902,213	3,702,213
2014	2,905,000	804,212	3,709,212
2015- 2019	16,535,000	2,165,650	18,700,650
Totals	<u>\$ 31,895,000</u>	<u>\$ 7,201,237</u>	<u>\$ 39,096,237</u>

General obligation bonds of the District are reflected in the district-wide financial statements and current requirements for principal and interest expenditures are accounted for in the Debt Redemption Fund.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 - Long-Term Debt (Continued)

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions and there were no authorized and un-issued bonds at June 30, 2009.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2009. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2007. Estimated additions and subtractions from that estimate have occurred since that date.

NOTE 10 - Reserved Fund Balances

A detailed description of the purpose for the reserved fund balances is as follows:

Reserved for Staff Development represents available resources dedicated from general education aid for staff development expenditures under finance codes 306, 307 and 308.

Reserved for Deferred Maintenance represents the resources available for approved expenditures based on the ten-year plan for capital projects and deferred maintenance.

Reserved for Health and Safety represents available resources dedicated for Health and Safety projects in accordance with an approved health and safety plan.

Reserved for Severance Pay represents available resources dedicated for payment of separation and severance pay payable.

Reserved for Operating Capital represents available resources used to purchase equipment and facilities.

Reserved for State-Approved Alternative Programs represents available resources dedicated for students attending a state-approved public alternative program, pursuant to Minnesota Statute 126C.05.

Reserved for Gifted and Talented represents resources available from general education aid for a program that identifies gifted and talented students, provides for educational programs for these students and/or provides staff development for teachers that best meet unique needs of gifted and talented students.

Reserved for Safe Schools Levy represents available resources from the levy of \$27 times the AMCPU which must be reserved for future use.

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10 - Reserved Fund Balances (Continued)

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

Reserved for School Readiness represents resources available to provide for school readiness programs.

Reserved for Adult Basic Education represents resources available to provide for activities involving adult basic education.

NOTE 11 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The District has entered into a joint powers agreement with Minnesota School Districts to participate in the Minnesota School Boards Association (MSBA) Insurance Trust to cover workers' compensation liabilities. The Self-Insured Workers' Compensation Program of MSBA Insurance Trust is a self-sustaining program and based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims, liabilities and other expenses. MSBA Insurance Trust participates in the Workers' Compensation Reinsurance Association as required by law. Should the MSBA Insurance Trust Self-Insured Compensation Program liabilities exceed assets, the MSBA Insurance Trust may assess the District in a method and amount to be determined by MSBA Insurance.

The District carries various commercial insurance policies covering personal property, commercial liability and automobile liability. There were no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

NOTE 12 - Commitments and Contingencies

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2009 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 13 – Subsequent Events

Subsequent to June 30, 2009 the District issued \$4,950,000 in general obligation bonds to finance other post-employment health benefits provided to retirees.

In addition, the District authorized the borrowing of \$9,000,000 in aid anticipation certificates for short-term cash flow needs.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>- Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Local Property Taxes	\$ 3,495,576	\$ 4,404,146	\$ 4,269,658	\$ (134,488)
Other Local and County Revenues	1,740,871	1,688,921	1,193,695	(495,226)
Revenues from State Sources	40,216,474	39,488,572	40,218,830	730,258
Revenues from Federal Sources	2,724,138	3,292,124	3,091,179	(200,945)
Sales and Other Conversions of Assets	150,490	120,190	98,386	(21,804)
Investment Earnings	202,000	150,000	26,830	(123,170)
Total Revenues	<u>48,529,549</u>	<u>49,143,953</u>	<u>48,898,578</u>	<u>(245,375)</u>
<u>Expenditures</u>				
District and School Administration	1,737,799	1,845,396	1,828,351	17,045
District Support Services	1,039,985	1,058,791	1,139,490	(80,699)
Regular Instruction	21,410,373	22,468,302	22,216,633	251,669
Vocational Instruction	677,069	664,963	517,769	147,194
Exceptional Instruction	10,227,592	10,692,942	10,867,645	(174,703)
Instructional Support Services	2,149,208	1,918,278	1,594,226	324,052
Pupil Support Services	5,318,474	5,023,149	4,918,842	104,307
Site, Buildings and Equipment	6,057,433	6,186,736	6,402,544	(215,808)
Fiscal and Other Fixed Costs	351,182	171,257	138,697	32,560
Total Expenditures	<u>48,969,115</u>	<u>50,029,814</u>	<u>49,624,197</u>	<u>405,617</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	(439,566)	(885,861)	(725,619)	160,242
<u>Other Financing Source</u>				
Proceeds From Sale of Real Estate	-	-	64,860	64,860
<u>Excess of Revenues and Other Financing</u>				
<u>Source Over (Under) Expenditures</u>	(439,566)	(885,861)	(660,759)	225,102
<u>Fund Balances, Beginning of Year</u>	<u>3,034,924</u>	<u>3,034,924</u>	<u>3,034,924</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 2,595,358</u>	<u>\$ 2,149,063</u>	<u>\$ 2,374,165</u>	<u>\$ 225,102</u>

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2009

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2007	\$ -	\$ 5,472,770	\$ 5,472,770	0.00%	\$ 29,456,373	18.58%

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

NOTE 1 – Budgetary Data

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

Legal Compliance – Budgets

- The 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 for all funds of the District. However, the General and Special Revenue Funds are the only funds that are legally adopted through the budgetary process as documented below.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary controls are not employed for the Fiduciary Funds.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

NOTE 2 – Expenditures in Excess of Budget

Expenditures exceeded the budget for the following fund:

	Budget	Actual	Excess
Special Revenue Fund:			
Food Service Fund	\$ 2,244,012	\$ 2,367,776	\$ 123,764

The above overage was considered by District management to be the result of necessary expenditures critical to operations and was approved by the School Board.

NOTE 3 – Other Post-employment Benefit Plan Funding Progress

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented during the 2009 fiscal year. See Note 8 - Other Post-employment Benefits for more information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>Special Revenue Funds</u>		<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	
<u>ASSETS</u>			
Cash and Investments	\$ -	\$ 297,651	\$ 297,651
Property Taxes Receivable	-	192,469	192,469
Due from Other Governmental Units	179,526	80,825	260,351
Inventories	17,499	-	17,499
<u>Total Assets</u>	<u>\$ 197,025</u>	<u>\$ 570,945</u>	<u>\$ 767,970</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Salaries Payable	\$ 39,870	\$ 48,061	\$ 87,931
Accounts Payable	7,733	18,967	26,700
Due To Other Funds	59,506	-	59,506
Payroll Deductions and Employer Contributions	6,034	7,362	13,396
Deferred Revenue	-	830	830
Deferred Revenue - Delinquent Taxes	-	8,907	8,907
Property Taxes Levied for Subsequent Years' Expenditures	-	359,408	359,408
Total Liabilities	<u>113,143</u>	<u>443,535</u>	<u>556,678</u>
<u>Fund Equity</u>			
Reserved Fund Balances:			
Community Education	-	(31,521)	(31,521)
Early Childhood and Family Education	-	121,220	121,220
School Readiness	-	35,381	35,381
Adult Basic Education	-	30	30
Unreserved-Undesignated Fund Balance	83,882	2,300	86,182
Total Fund Equity	<u>83,882</u>	<u>127,410</u>	<u>211,292</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 197,025</u>	<u>\$ 570,945</u>	<u>\$ 767,970</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	<u>Special Revenue Funds</u>		<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	
<u>Revenues</u>			
Local Property Taxes	\$ -	\$ 286,372	\$ 286,372
Other Local and County Revenues	-	655,600	655,600
Revenues from State Sources	89,590	636,505	726,095
Revenues from Federal Sources	1,241,785	8,040	1,249,825
Sales and Other Conversions of Assets	1,119,612	-	1,119,612
Investment Earnings	671	2,012	2,683
Total Revenues	<u>2,451,658</u>	<u>1,588,529</u>	<u>4,040,187</u>
<u>Expenditures</u>			
Community Education and Services	-	1,503,954	1,503,954
Pupil Support Services	2,367,776	14,151	2,381,927
Total Expenditures	<u>2,367,776</u>	<u>1,518,105</u>	<u>3,885,881</u>
<u>Excess of Revenues Over Expenditures</u>	83,882	70,424	154,306
<u>Fund Balances, Beginning of Year</u>	-	56,986	56,986
<u>Fund Balances, End of Year</u>	<u>\$ 83,882</u>	<u>\$ 127,410</u>	<u>\$ 211,292</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009

	Original and Final Budgets	Actual	Variance with Final Budget - Positive (Negative)
<u>Revenues</u>			
Revenues from State Sources	\$ 84,840	\$ 89,590	\$ 4,750
Revenues from Federal Sources	1,052,420	1,241,785	189,365
Sales and Other Conversions of Assets	1,035,250	1,119,612	84,362
Investment Earnings	-	671	671
<u>Total Revenues</u>	<u>2,172,510</u>	<u>2,451,658</u>	<u>279,148</u>
<u>Expenditures</u>			
<u>Pupil Support Services</u>			
Salaries and Wages	669,929	755,598	(85,669)
Employee Benefits	173,798	239,531	(65,733)
Purchased Services	47,124	58,163	(11,039)
Supplies and Materials	1,342,597	1,314,339	28,258
Capital Expenditures	10,403	-	10,403
Other Expenditures	161	145	16
<u>Total Expenditures</u>	<u>2,244,012</u>	<u>2,367,776</u>	<u>(123,764)</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(71,502)</u>	<u>83,882</u>	<u>155,384</u>
<u>Fund Balance, Beginning of Year</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ (71,502)</u>	<u>\$ 83,882</u>	<u>\$ 155,384</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Taxes	\$ 293,311	\$ 359,171	\$ 286,372	\$ (72,799)
Other Local and County Revenues	673,596	550,978	655,600	104,622
Revenues from State Sources	661,208	769,355	636,505	(132,850)
Revenues from Federal Sources	13,602	8,040	8,040	-
Investment Earnings	-	-	2,012	2,012
<u>Total Revenues</u>	<u>1,641,717</u>	<u>1,687,544</u>	<u>1,588,529</u>	<u>(99,015)</u>
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Salaries and Wages	1,095,720	1,118,359	1,019,494	98,865
Employee Benefits	246,025	240,262	230,963	9,299
Purchased Services	135,466	144,177	128,215	15,962
Supplies and Materials	171,609	186,965	123,687	63,278
Capital Expenditures	2,123	6,603	1,595	5,008
Total Community Education and Services	<u>1,650,943</u>	<u>1,696,366</u>	<u>1,503,954</u>	<u>192,412</u>
<u>Pupil Support Services</u>				
Salaries and Wages	-	13,951	12,941	1,010
Employee Benefits	-	1,974	68	1,906
Purchased Services	16,119	990	-	990
Supplies and Materials	15,662	16,318	1,142	15,176
Total Pupil Support Services	<u>31,781</u>	<u>33,233</u>	<u>14,151</u>	<u>19,082</u>
<u>Total Expenditures</u>	<u>1,682,724</u>	<u>1,729,599</u>	<u>1,518,105</u>	<u>211,494</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(41,007)</u>	<u>(42,055)</u>	<u>70,424</u>	<u>112,479</u>
<u>Fund Balances, Beginning of Year</u>	<u>56,986</u>	<u>56,986</u>	<u>56,986</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 15,979</u>	<u>\$ 14,931</u>	<u>\$ 127,410</u>	<u>\$ 112,479</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2009

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Student Activities</u>				
<u>Assets</u>				
Cash and Investments	<u>\$ 348,703</u>	<u>\$ 630,828</u>	<u>\$ 653,324</u>	<u>\$ 326,207</u>
<u>Liabilities</u>				
Due to Student Organizations	<u>\$ 348,703</u>	<u>\$ 630,828</u>	<u>\$ 653,324</u>	<u>\$ 326,207</u>
 <u>BEA Retiree Fringe Benefit Pool</u>				
<u>Assets</u>				
Cash and Investments	<u>\$ 89,603</u>	<u>\$ 190,283</u>	<u>\$ 149,513</u>	<u>\$ 130,373</u>
<u>Liabilities</u>				
Due to Bemidji Education Association	<u>\$ 89,603</u>	<u>\$ 190,283</u>	<u>\$ 149,513</u>	<u>\$ 130,373</u>
 <u>Total All Agency Funds</u>				
<u>Assets</u>				
Cash and Investments	<u>\$ 438,306</u>	<u>\$ 821,111</u>	<u>\$ 802,837</u>	<u>\$ 456,580</u>
<u>Liabilities</u>				
Due to Bemidji Education Association	<u>89,603</u>	<u>190,283</u>	<u>149,513</u>	<u>130,373</u>
Due to Student Organizations	<u>348,703</u>	<u>630,828</u>	<u>653,324</u>	<u>326,207</u>
<u>Total Liabilities</u>	<u>\$ 438,306</u>	<u>\$ 821,111</u>	<u>\$ 802,837</u>	<u>\$ 456,580</u>

FISCAL COMPLIANCE REPORT - 6/30/2009
District: BEMIDJI PUBLIC SCHOOLS (0031 - 01)

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	\$48,898,578	\$48,898,578	\$0	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$49,624,197	\$49,624,197	\$0	Total Expenditures	\$0	\$0	\$0
Reserved:				Reserved:			
4.03 Staff Development	\$215,577	\$215,577	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$24,106	\$24,106	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	(\$1,030,476)	(\$1,030,476)	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Unreserved:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.11 Severance Pay	\$300,000	\$300,000	\$0				
4.14 Operating Debt	\$0	\$0	\$0	<u>07 DEBT SERVICE</u>			
4.16 Levy Reduction	\$0	\$0	\$0	Total Revenue	4,234,475	\$4,234,475	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0	Total Expenditures	4,312,281	\$4,312,281	\$0
4.19 Encumbrances	\$0	\$0	\$0	Reserved:			
4.23 Certain Teacher Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.24 Operating Capital	\$1,416,770	\$1,416,770	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Unreserved:			
4.27 Disabled Accessibility	\$0	\$0	\$0	4.22 Unreserved/Undesignated	1,502,676	\$1,502,676	\$0
4.28 Learning & Development	\$0	\$0	\$0				
4.34 Area Learning Center	\$0	\$0	\$0	<u>08 TRUST</u>			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$2,268	\$2,268	\$0	Total Expenditures	\$0	\$0	\$0
4.38 Gifted & Talented	\$102,768	\$102,768	\$0	Reserved:			
4.41 Basic Skills Program	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.45 Career Tech Programs	\$0	\$0	\$0	Unreserved:	\$0	\$0	\$0
4.46 First Grade Preparedness	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.49 Safe School Levy	\$866	\$866	\$0				
4.50 Pre-Kindergarten	\$0	\$0	\$0	<u>09 AGENCY</u>			
4.51 QZAB Payments	\$0	\$0	\$0	Unreserved:			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
Unreserved:							
4.18 Severance-Ins. Premium	\$0	\$0	\$0	<u>20 INTERNAL SERVICE</u>			
4.22 Unreserved/Undesignated	\$1,342,286	\$1,342,286	\$0	Total Revenue	\$0	\$0	\$0
				Total Expenditures	\$0	\$0	\$0
<u>02 FOOD SERVICE</u>				Reserved:			
Total Revenue	\$2,451,658	\$2,451,658	\$0	4.19 Encumbrances	\$0	\$0	\$0
Total Expenditures	\$2,367,776	\$2,367,776	\$0	Unreserved:			
Reserved:				4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.11 Severance	\$0	\$0	\$0				
4.19 Encumbrances	\$0	\$0	\$0	<u>25 OPEB REVOCABLE TRUST</u>			
4.52 OPEB Liability Not in Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Unreserved:				Total Expenditures	\$0	\$0	\$0
4.18 Severance - Ins. Premium	\$0	\$0	\$0	Reserved:			
4.22 Unreserved/Undesignated	\$83,882	\$83,882	\$0	4.19 Encumbrances	\$0	\$0	\$0
				Unreserved:			
<u>04 COMMUNITY SERVICE</u>				4.22 Unreserved/Undesignated	\$0	\$0	\$0
Total Revenue	\$1,588,529	\$1,588,529	\$0				
Total Expenditures	\$1,518,105	\$1,518,105	\$0	<u>45 OPEB IRREVOCABLE TRUST</u>			
Reserved:				Total Revenue	\$0	\$0	\$0
4.11 Severances	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.19 Encumbrances	\$0	\$0	\$0	Reserved:			
4.26 \$25 Taconite	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.31 Community Education	(\$31,521)	(\$31,521)	\$0	Unreserved:			
4.32 E.C.F.E.	\$121,220	\$121,220	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.44 School Readiness	\$35,381	\$35,381	\$0				
4.47 Adult Basic Education	\$30	\$30	\$0	<u>47 OPEB DEBT SERVICE</u>			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Unreserved:				Total Expenditures	\$0	\$0	\$0
4.18 Severance-Ins. Premium	\$0	\$0	\$0	Reserved:			
4.22 Unreserved/Undesignated	\$2,300	\$2,300	\$0	4.25 Bond Refundings	\$0	\$0	\$0
				Unreserved:			
				4.22 Unreserved/Undesignated	\$0	\$0	\$0
				UNAUDITED DATA REPORTING ELEMENTS			
				FY09 SAFE SCHOOL MAINTENANCE OF EFFORT			
				MOE Base Year Expenditures	\$703,696.00		
				MOE FTE	14.79		
				FY09 OPERATING CAPITAL TRANSFER			
				Per Pupil Amount	\$0.00		
				AMCPU	0.00		
				Total Transfer	\$0.00		

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Pass-Through Minnesota Department of Education:		
Clustered Programs:		
National School Breakfast Program	10.553	\$ 192,934
National School Lunch Program	10.555	857,682
National School Lunch Program - Commodity Distribution	10.555	112,610
Summer Food Program	10.559	63,085
Total Clustered Programs		<u>1,226,311</u>
Child Food Program	10.558	15,474
<u>Total Department of Agriculture</u>		<u>1,241,785</u>
<u>U. S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	46,084
Indian Elementary and Secondary School Assistance	84.060	196,075
Pass-Through Minnesota Department of Education:		
Adult Basic Education	84.002	8,039
Title I Part A	84.010	1,141,489
Title I Part D	84.010	171,425
Special Education - General	84.027	964,332
Special Education - Discretionary	84.027	8,070
Special Education - Preschool	84.173	32,113
Special Education - Infants and Toddlers	84.181	33,686
Title IV Part A	84.186	26,002
Title X Part C Subtitle B - Homeless	84.196	28,500
Title V Part A	84.298	50,113
Title II Part D - Technology	84.318	45,676
Title II Part A	84.367	356,447
<u>Total Department of Education</u>		<u>3,108,051</u>
<u>Received from Other Pass Through Entities</u>		
Johnson O'Malley - Red Lake Band of Chippewa Indians	15.130	20,460
Johnson O'Malley - Leech Lake Band of Chippewa Indians	15.130	3,778
Carl Perkins Career and Technical Education - North Country Vocational Coop	84.243	34,102
<u>Total Received from Other Pass Through Entities</u>		<u>58,340</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 4,408,176</u>

NOTE 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Independent School District No. 31. The Schedule 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 Non-Profits Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2009
(Unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Property Tax Levies										
General Referendum	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688	\$ 1,784,861	\$ 1,414,701	\$ 1,234,142	\$ -	\$ -	\$ 630,753	\$ 577,785
General Maintenance	1,727,879	1,760,443	1,363,836	931,211	184,055	-	676,177	411,058	5,482,797	5,329,645
Community Service	359,408	311,974	351,150	318,539	294,045	277,550	256,749	246,993	178,922	-
Debt Redemption	4,141,766	4,181,544	4,421,541	4,576,783	5,092,734	4,841,543	4,009,817	3,762,741	4,308,644	3,974,356
Total Property Tax Levies	\$ 8,838,514	\$ 8,618,213	\$ 8,194,215	\$ 7,611,394	\$ 6,985,535	\$ 6,353,235	\$ 4,942,743	\$ 4,420,792	\$ 10,601,116	\$ 9,881,786
Taxable Net Tax Capacity										
Beltrami County	\$ 25,601,517	\$ 24,068,019	\$ 21,976,481	\$ 18,598,643	\$ 16,487,326	\$ 14,341,799	\$ 12,706,895	\$ 11,527,796	\$ 13,858,311	\$ 13,069,508
Hubbard County	3,336,329	3,086,630	2,579,451	2,261,810	1,936,573	1,636,890	1,439,075	1,269,772	1,434,126	1,296,498
Total Net Tax Capacity	\$ 28,937,846	\$ 27,154,649	\$ 24,555,932	\$ 20,860,453	\$ 18,423,899	\$ 15,978,689	\$ 14,145,970	\$ 12,797,568	\$ 15,292,437	\$ 14,366,006
Property Tax Rate	21.499%	23.045%	24.990%	27.931%	30.237%	32.037%	34.941%	34.544%	65.198%	64.764%
Referendum Market Values										
Beltrami County	\$ 1,925,650,921	\$ 1,838,553,655	\$ 1,702,738,595	\$ 1,455,618,295	\$ 1,284,626,487	\$ 1,113,462,409			\$ 911,898,568	\$ 855,082,067
Hubbard County	224,374,220	213,065,100	182,281,101	161,103,300	137,755,102	117,601,726			108,737,500	98,043,906
Total Referendum Market Values	\$ 2,150,025,141	\$ 2,051,618,755	\$ 1,885,019,696	\$ 1,616,721,595	\$ 1,422,381,589	\$ 1,231,064,135			\$ 1,020,636,068	\$ 953,125,973
Referendum Rate	0.12137%	0.11538%	0.10916%	0.11040%	0.09946%	0.10025%			0.06180%	0.06062%
Students Served (Weighted ADM's)										
Residents	5,861.43	5,911.40	5,916.96	5,914.56	5,939.23	5,968.87	6,124.68	6,202.19	6,282.16	6,366.71
Nonresidents in District										
Tuition	82.14	82.41	122.70	127.12	150.48	141.77	158.38	159.83	136.75	134.14
Enrollment Options	280.02	236.68	245.72	222.65	213.44	227.56	239.24	228.92	228.51	215.80
Ineligible	0.65	0.60	0.62	3.53	2.22	2.21	2.33	9.41	7.06	12.42
Shared Aid	9.27	14.39	12.51	12.72	14.46	17.43	13.86	15.77	15.14	18.37
Shared Time Tuition	0.11	0.21	-	-	-	0.16	0.42	0.90	1.90	2.02
Adults	4.31	-	-	-	-	-	5.36	7.49	5.20	6.69
Residents Outside District										
Tuition	(27.21)	(24.59)	(35.38)	(33.19)	(27.15)	(26.65)	(20.07)	(20.64)	(25.11)	(22.15)
Charter	(442.59)	(428.10)	(433.15)	(398.82)	(414.37)	(406.55)	(172.46)	(168.58)	(152.18)	(0.70)
Enrollment Options	(363.27)	(341.11)	(369.75)	(397.26)	(402.28)	(396.31)	(407.63)	(409.49)	(377.19)	(375.20)
Total Students Served	5,404.86	5,451.89	5,460.23	5,451.31	5,476.03	5,528.49	5,944.11	6,025.80	6,122.24	6,358.10
Adjusted Weighted ADM's	5,366.11	5,378.87	5,359.78	5,341.13	5,336.02	5,393.57	5,783.83	5,853.04	5,981.30	6,206.61
Resident ADM's	5,121.21	5,104.55	5,108.15	5,101.53	5,121.77	5,158.95	5,295.49	5,355.90	5,440.87	5,499.82



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**REPORT ON COMPLIANCE BASED ON AN AUDIT
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE
 FOR LOCAL GOVERNMENT**

**The Board of Education
 Independent School District No. 31
 Bemidji, 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. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2009, which collectively comprise Independent School District No. 31, Bemidji, Minnesota’s basic financial statements and have issued our report thereon dated December 22, 2009.

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

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

The results of our test indicate that for the items tested, Independent School District No. 31, Bemidji, Minnesota complied with the material terms and conditions of applicable legal provisions.

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

Miller McDonald, Inc.

December 22, 2009
 Bemidji, Minnesota



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

**The Board of Education
 Independent School District No. 31
 Bemidji, 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. 31, Bemidji, Minnesota as of and for the year ended June 30, 2009, which collectively comprise Independent School District No. 31, Bemidji, Minnesota's basic financial statements and have issued our report thereon dated December 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independent School District No. 31, Bemidji, Minnesota'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 Independent School District No. 31, Bemidji, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31, Bemidji, Minnesota's internal control over financial reporting.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Independent School District No. 31, Bemidji, Minnesota's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Independent School District No. 31, Bemidji, Minnesota's financial statements that is more than inconsequential will not be prevented or detected by Independent School District No. 31, Bemidji, Minnesota's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by Independent School District No. 31, Bemidji, Minnesota's internal control.

**Independent School District No. 31
Bemidji, Minnesota**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 31, Bemidji, Minnesota'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School Board, management of the District, others within the District, 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.

Miller McDonald, Inc.

December 22, 2009
Bemidji, Minnesota



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

**The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota**

Compliance

We have audited the compliance of Independent School District No. 31, Bemidji, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Independent School District No. 31, Bemidji, Minnesota's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independent School District No. 31, Bemidji, Minnesota's management. Our responsibility is to express an opinion on Independent School District No. 31, Bemidji, Minnesota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit 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 Independent School District No. 31, Bemidji, Minnesota's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independent School District No. 31, Bemidji, Minnesota's compliance with those requirements.

As described in item 2009-1 in the accompanying schedule of findings and questioned costs, Independent School District No. 31, Bemidji, Minnesota, did not comply with requirements regarding allowable costs/costs principles that are applicable to its Indian Elementary and Secondary School Assistance grant. Compliance with such requirements is necessary, in our opinion, for Independent School District No. 31, Bemidji, Minnesota, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Independent School District No. 31, Bemidji, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Independent School District No. 31, Bemidji, Minnesota 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 Independent School District No. 31, Bemidji, Minnesota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District 31, Bemidji, Minnesota's internal control over compliance.

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a material weakness.

Independent School district No. 31, Bemidji, Minnesota's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Independent School District No. 31, Bemidji, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Board, management of the District, others within the District, 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.

Miller McDonald, Inc.

December 22, 2009
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

I. SUMMARY OF AUDITORS' RESULTS

- 1.) An unqualified report was issued.
- 2.) No significant deficiency in internal control was reported on the audit of the financial statements and none were identified as a material weakness.
- 3.) The audit did not disclose any noncompliance which was material to the financial statements.
- 4.) One significant deficiency involving internal control over compliance relating to the audit of the major federal award programs was reported in the *Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*. The significant deficiency is not reported as a material weakness.
- 5.) A qualified report on compliance for major federal award program was issued.
- 6.) A finding was disclosed that is required to be reported in accordance with Section .510(a) of OMB.
- 7.) Major programs:

Clustered Programs:	
National School Breakfast Program	CFDA No. 10.553
National School Lunch Program	CFDA No. 10.555
National School Lunch Program – Commodity Distribution	CFDA No. 10.555
Summer Food Program	CFDA No. 10.559
Indian Elementary and Secondary School Assistance	CFDA No. 84.060
- 8.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 qualified as a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

INTERNAL CONTROL

Items Arising This Year

None

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control

Finding: 2009-1 – Indian Elementary and Secondary School Assistance Grant, CFDA 84.060 - Inadequate Support of Salaries and Wages

Condition

The District did not compile adequate and proper documentation in support of wages and benefits paid to employees working under the Indian Elementary and Secondary School Assistance federal award program (CFDA 84.060) In accordance with OMB Circular A-87, Attachment B, paragraph 8 (h), depending on whether an employee works on a single Federal award or multiple awards, salaries and wages must be supported by either periodic certifications or personnel activity reports or equivalent documentation.

Criteria

The District should have controls in place to insure that Personnel Activity Reports or equivalent documentation is being prepared in a timely manner for each employee working on any activity supported by a Federal Award.

Effect

The impact on the financial statements is that the potential exists that a material misstatement could exist in the financial statements.

Cause

The District's personnel were not aware of the certification or Personnel Activity Report requirements for adequate documentation of salaries and wages for employees who work under Federal awards.

Recommendation

We recommend that management become knowledgeable in compliance standards and requirements for Federal awards and establish policies and procedures that adequately assure the District's compliance with those standards and requirements.

Management's Response – Corrective Action Plan

A. Explanation of Disagreement with Audit Finding

The District does not disagree with the finding.

B. Actions Planned in Response to Finding

The District will direct Indian Ed Coordinator to complete Personal Activity Reports (PAR) for CFDA 84.060

C. Official Responsible for Ensuring CAP Implementation

Chris Leinen, director of Business Services.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

D. Planned Completion of CAP

On or before June 30, 2010.

E. Plan to Monitor Completion of CAP

Request copies of PARS to District office.

Questioned Costs

Indian Elementary and Secondary School Assistance	CFDA 84.060	\$192,729
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The questioned costs are the result of the District not completing proper and adequate documentation for wages and salaries and other payroll related benefits. Personnel Activity Reports have not been completed or signed by personnel receiving salaries or wages from the Program.