

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**JUNE 30, 2010**

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**JUNE 30, 2010**

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**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**JUNE 30, 2010**

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**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**YEAR ENDED JUNE 30, 2010**

**OFFICIAL DIRECTORY**  
(Unaudited)

	<u>July 1, 2009</u> to <u>December 31, 2009</u>	<u>January 1, 2010</u> to <u>June 30, 2010</u>
<b><u>School Board Members and Officers</u></b>		
Chairperson	Carol L. Johnson	Melvin (Gene) Dillon
Vice-Chairperson	Melvin (Gene) Dillon	Richard (Bill) Faver
Clerk	Richard (Bill) Faver	Ann Long Voelkner
Treasurer	Steven H. Johnson	Steven H. Johnson
Director	John Pogleasa	John Pogleasa
Director	Ann Long Voelkner	Carol L. Johnson
<b><u>Administration</u></b>		
Superintendent	Dr. James Hess	Dr. James Hess
Director of Business Services	Chris Leinen, J.D.	Chris Leinen, J.D.



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## INDEPENDENT AUDITOR'S 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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2010, 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.

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

The management's discussion and analysis on pages 4 through 16, the budgetary comparison information and the schedule of funding progress for post-employment benefit plan on pages 45 through 47 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 48 through 53 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 pages 54 through 55 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget 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. The supplementary information and the schedule of expenditures of federal awards have 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 and statistical information on page 56 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, 2010  
Bemidji, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

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, 2010. 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, 2010 include the following:

- Net assets increased by 12.15% from the prior year.
- District-wide revenues were \$60,436,821 and district-wide expenses were \$55,847,656.
- Enrollment increased 193.17 students from 5,333.73 to 5,526.90 weighted ADM students.
- The general fund balance increased by \$3,158,327, representing 8% of general fund expenditures.
- The District retired \$3,120,000 in bond principal.
- The District issued general obligation OPEB bonds in the amount of \$4,950,000 and expensed \$4,327,313 in health benefit costs and contributed into the OPEB irrevocable trust fund.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

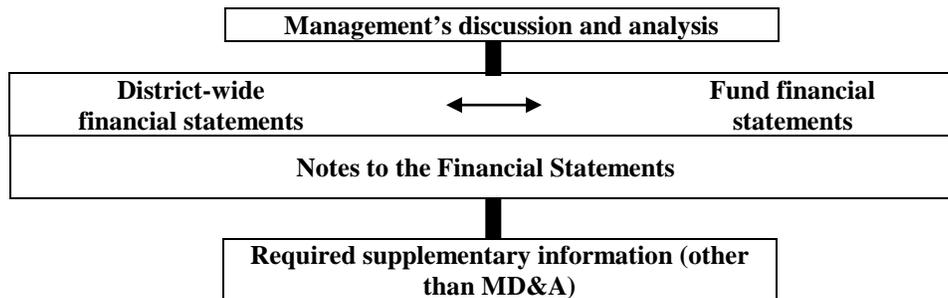
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2010**

**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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic 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, 2010**

**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, 2010**

**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 of an irrevocable trust fund and two 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 \$42,360,194 at June 30, 2010 (see the following table). At June 30, 2009 the net assets were \$37,771,029 (as restated), with an increase of \$4,589,165 from operating activities for the year ended June 30, 2010.

	2010	2009	Net Change	
			Amount	Percent
Current and other assets	\$ 36,178,682	\$ 17,889,013	\$ 18,289,669	102.24%
Capital assets, net of depreciation	66,128,709	67,169,348	(1,040,639)	-1.55%
<b>Total Assets</b>	<b>102,307,391</b>	<b>85,058,361</b>	<b>17,249,030</b>	<b>20.28%</b>
Current payables	24,034,354	14,110,040	9,924,314	70.34%
Long-term liabilities:				
Due within one year	3,502,195	3,752,622	(250,427)	-6.67%
Due after one year	32,410,648	29,424,670	2,985,978	10.15%
<b>Total Liabilities</b>	<b>59,947,197</b>	<b>47,287,332</b>	<b>12,659,865</b>	<b>26.77%</b>
Net assets:				
Invested in capital assets, net of related debt	32,601,109	35,561,808	(2,960,699)	-8.33%
Restricted	4,793,679	3,630,583	1,163,096	32.04%
Unrestricted (Deficit)	4,965,406	(1,421,362)	6,386,768	449.34%
<b>Total Net Assets</b>	<b>\$ 42,360,194</b>	<b>\$ 37,771,029</b>	<b>\$ 4,589,165</b>	<b>12.15%</b>

Net assets increased by 12.15% for the year ended June 30, 2010.

The 2009 long-term liabilities and unrestricted net assets were restated to reflect prior period adjustments related to OPEB and severance payable. This resulted in an increase to net assets of \$67,129.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**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, 2010 and 2009. A summary of the District's revenues and expenses, along with the amount of change and percentages for each category are as follows:

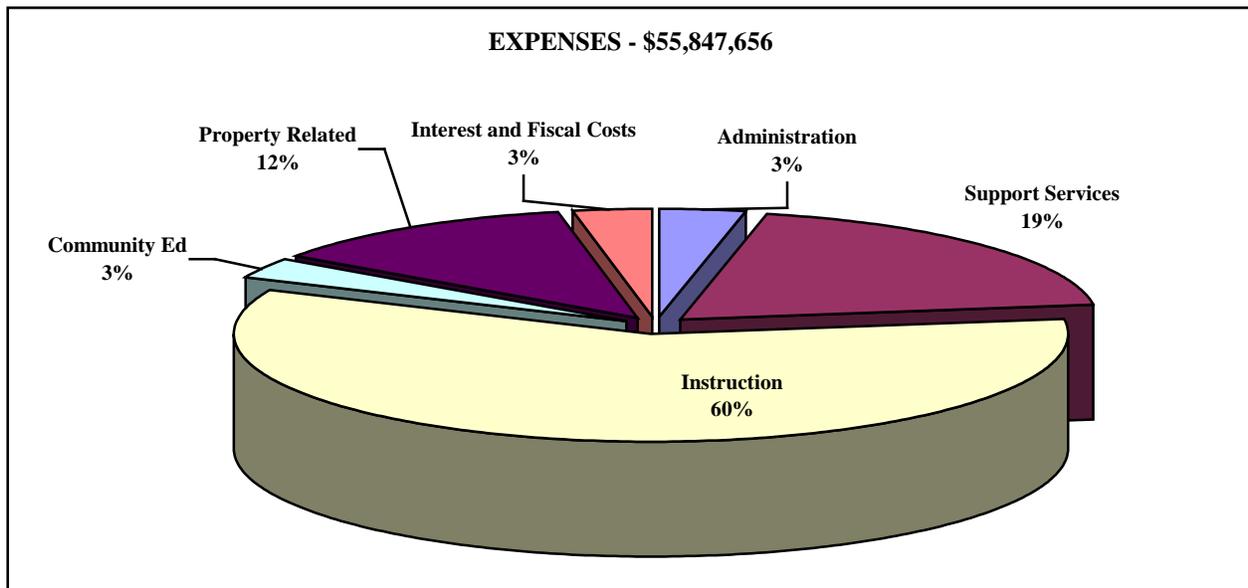
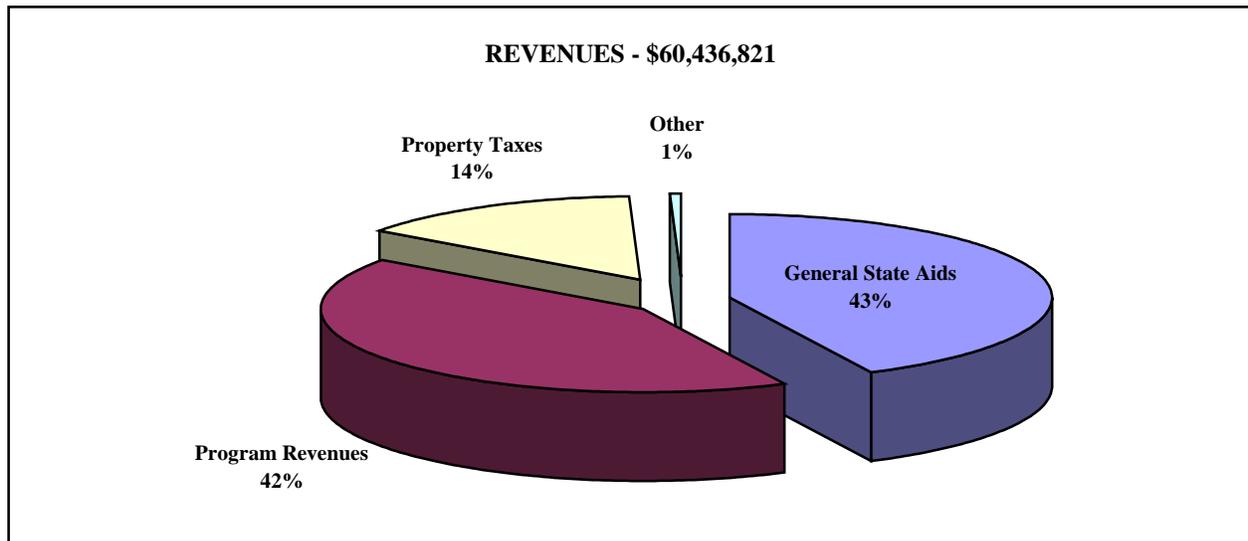
	2010		2009		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 3,125,211	5.17%	\$ 2,335,619	4.08%	\$ 789,592	33.81%
Operating Grants and Contributions	22,512,740	37.25%	18,109,958	31.62%	4,402,782	24.31%
<b>Total Program Revenues</b>	<b>25,637,951</b>	<b>42.42%</b>	<b>20,445,577</b>	<b>35.70%</b>	<b>5,192,374</b>	<b>25.40%</b>
<b>General Revenues:</b>						
Property Taxes	8,609,588	14.25%	8,414,834	14.69%	194,754	2.31%
Aids and Payments from State and Federal Sources	25,809,209	42.70%	28,095,855	49.07%	(2,286,646)	-8.14%
Other Sources	380,073	0.63%	309,954	0.54%	70,119	22.62%
<b>Total General Revenues</b>	<b>34,798,870</b>	<b>57.58%</b>	<b>36,820,643</b>	<b>64.30%</b>	<b>(2,021,773)</b>	<b>-5.49%</b>
<b>Total Revenues</b>	<b>60,436,821</b>	<b>100.00%</b>	<b>57,266,220</b>	<b>100.00%</b>	<b>3,170,601</b>	<b>5.54%</b>
<b>Expenses:</b>						
<b>Instructional:</b>						
Regular Instruction	21,836,327	39.10%	22,247,196	39.63%	(410,869)	-1.85%
Vocational Instruction	386,572	0.69%	541,543	0.96%	(154,971)	-28.62%
Exceptional Instruction	10,725,372	19.20%	10,991,989	19.58%	(266,617)	-2.43%
<b>Total Instructional</b>	<b>32,948,271</b>	<b>58.99%</b>	<b>33,780,728</b>	<b>60.17%</b>	<b>(832,457)</b>	<b>-2.46%</b>
<b>Support Services:</b>						
District Support Services	1,132,144	2.03%	1,150,299	2.05%	(18,155)	-1.58%
Instructional Support Services	1,736,910	3.11%	1,632,242	2.91%	104,668	6.41%
Pupil Support Services	7,963,189	14.26%	7,588,220	13.51%	374,969	4.94%
<b>Total Support Services</b>	<b>10,832,243</b>	<b>19.40%</b>	<b>10,370,761</b>	<b>18.47%</b>	<b>461,482</b>	<b>4.45%</b>
Administration	1,865,600	3.34%	1,845,398	3.29%	20,202	1.09%
Community Education and Services	1,613,222	2.89%	1,516,213	2.70%	97,009	6.40%
Site, Buildings and Equipment	6,940,185	12.43%	7,183,655	12.80%	(243,470)	-3.39%
Fiscal and Other Fixed Costs	183,820	0.33%	138,697	0.25%	45,123	32.53%
Interest on Long-Term Debt	1,464,315	2.62%	1,302,980	2.32%	161,335	12.38%
<b>Total Expenses</b>	<b>55,847,656</b>	<b>100.00%</b>	<b>56,138,432</b>	<b>100.00%</b>	<b>(290,776)</b>	<b>-0.51%</b>
<b>Change in Net Assets</b>	<b>\$ 4,589,165</b>		<b>\$ 1,127,788</b>		<b>\$ 3,461,377</b>	

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

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

For the year ended June 30, 2010, the District's total revenues were \$60,436,821 and consisted of program revenues of \$25,637,951, property taxes of \$8,609,588, general aids and payments from state and federal sources of \$25,809,209 and other sources of \$380,073. Expenses totaling \$55,847,656 consisted of regular, vocational and exceptional instruction costs of \$32,948,271; district, instructional and pupil support services of \$10,832,243; site, buildings and equipment related costs of \$6,940,185; fiscal and fixed-cost programs of \$183,820; community education and services costs of \$1,613,222, administrative costs of \$1,865,600 and interest on long-term debt of \$1,464,315.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2010:



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**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, 2010 and 2009 are as follows:

	<u>Cost of Services - 2010</u>		<u>Cost of Services - 2009</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
District and School Administration	\$ 1,865,600	\$ 1,507,307	\$ 1,845,398	\$ 1,487,311
District Support Services	1,132,144	1,132,144	1,150,299	1,150,299
Regular Instruction	21,836,327	10,817,378	22,247,196	15,936,656
Vocational Instruction	386,572	344,596	541,543	602,920
Exceptional Instruction	10,725,372	3,048,228	10,991,989	3,708,319
Community Education and Services	1,613,222	(440,011)	1,516,213	204,887
Instructional Support Services	1,736,910	971,900	1,632,242	451,621
Pupil Support Services	7,963,189	4,422,842	7,588,220	4,165,322
Site, Buildings and Equipment	6,940,185	6,757,186	7,183,655	6,543,843
Fiscal and Other Fixed Costs	183,820	183,820	138,697	138,697
Interest on Long-Term Debt	1,464,315	1,464,315	1,302,980	1,302,980
Total Expenses	<u>\$ 55,847,656</u>	<u>\$ 30,209,705</u>	<u>\$ 56,138,432</u>	<u>\$ 35,692,855</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 \$8,334,084.

Total fund balances increased in the amount of \$4,245,951 from the end of the prior year. The increase was primarily the result of combined proceeds from a bond issue and a capital lease of \$6,112,575. This was somewhat offset by expenditures exceeding revenues by \$1,866,624. The general fund ended with an increase in its fund balance of \$3,158,327. The debt redemption fund had a net decrease in fund balance of \$172,531. The food service fund, community service fund, building construction fund, and OPEB debt service fund had fund balance increases of \$284,712, \$124,297, \$327,811, and \$523,335, respectively.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

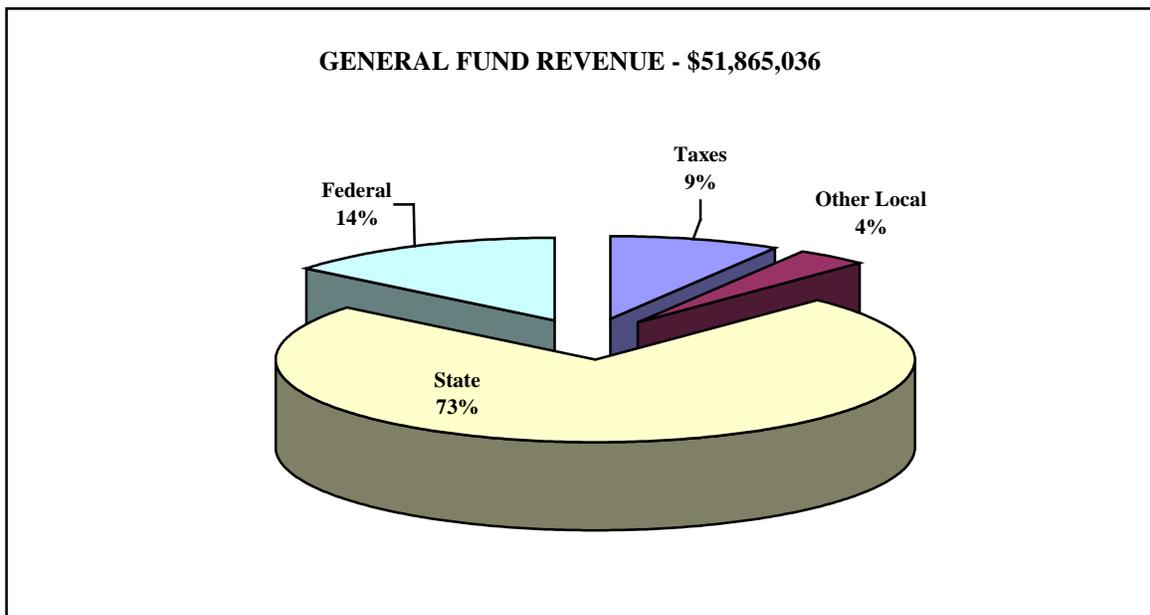
**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**  
**(FUND FINANCIAL STATEMENTS) (Continued)**

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$60,412,123 while total expenditures were \$62,278,747. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

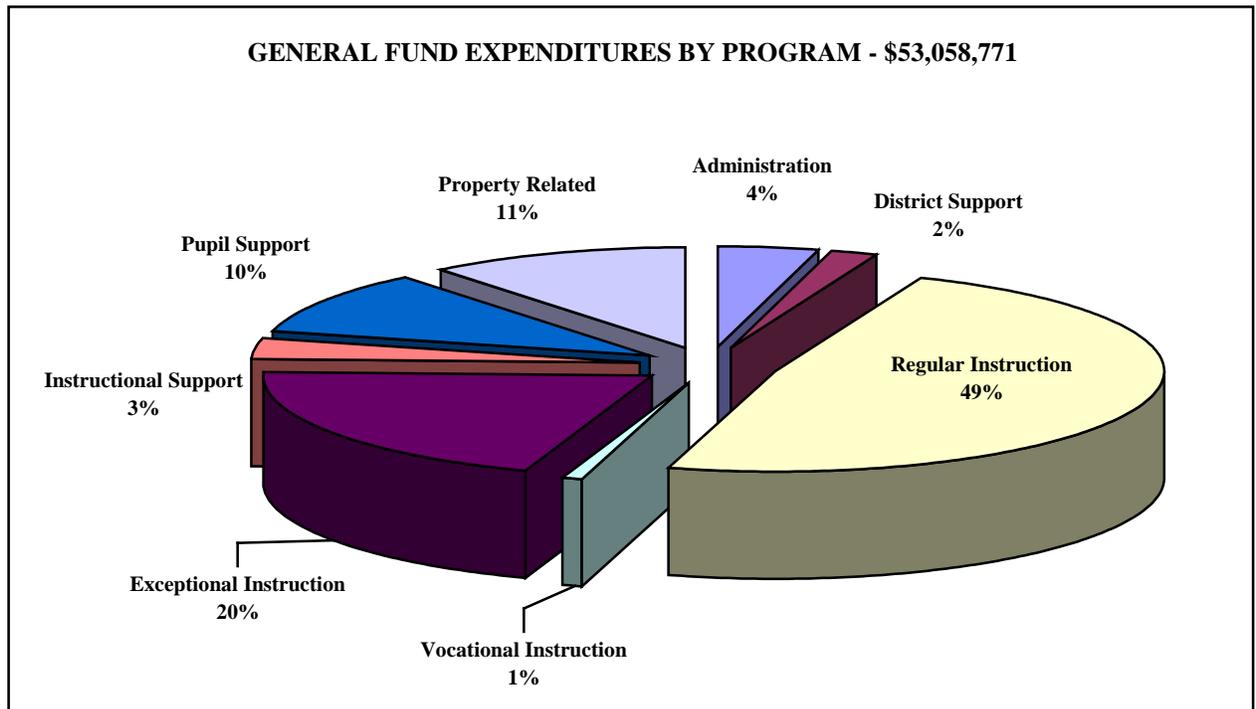
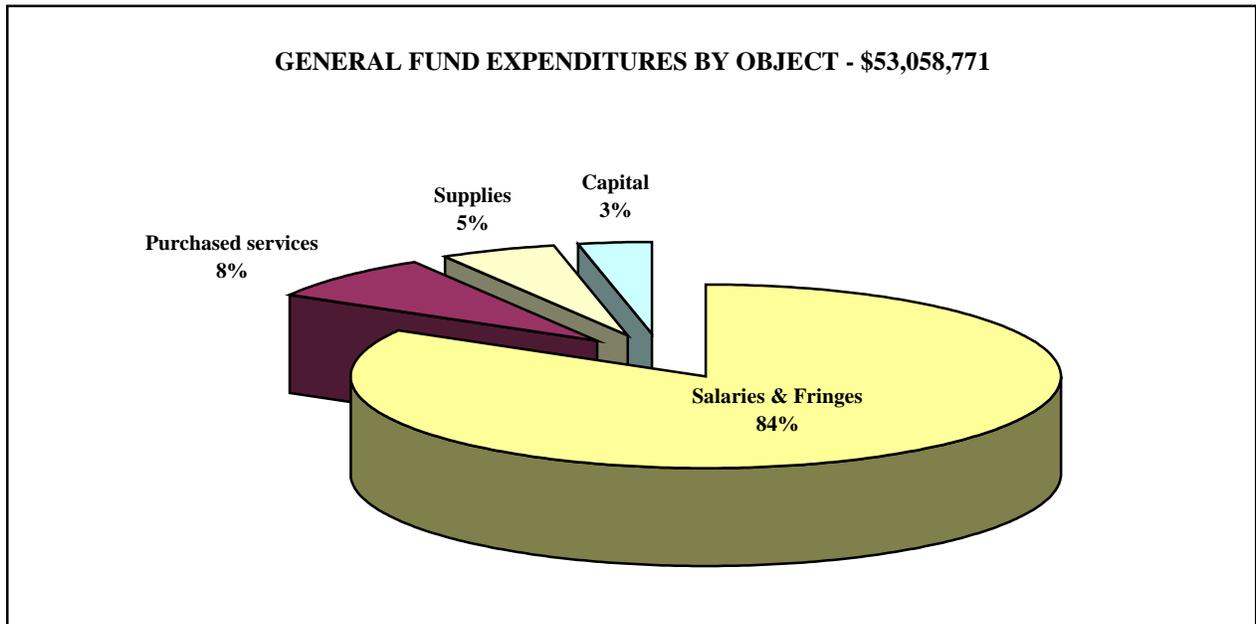
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 51,865,036	\$ 53,058,771	\$ 4,352,062	\$ 3,158,327
Food Service Fund	2,638,780	2,354,068	-	284,712
Community Service Fund	1,747,949	1,623,652	-	124,297
Building Construction Fund	3	772,192	1,100,000	327,811
Debt Redemption Fund	4,156,000	4,328,531	-	(172,531)
OPEB Debt Redemption Fund	4,354	141,532	660,513	523,335
<b>Totals</b>	<b><u>\$ 60,412,122</u></b>	<b><u>\$ 62,278,746</u></b>	<b><u>\$ 6,112,575</u></b>	<b><u>\$ 4,245,951</u></b>

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, 2010**

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



**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

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

**General Fund Budgetary Highlights**

During the year ended June 30, 2010, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2009, 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 2009 when 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.

Enrollment is the single largest factor in driving school district revenues. For this year the average daily membership (ADM) was up by 160.79 students. About one third of this increase is attributable to higher birth rates entering the kindergarten grade level but the remaining two thirds is due to other factors, including economic growth, parental choice and lower dropout rates. This higher enrollment translates to a revenue increase over the prior year of approximately \$1,120,000.

Our "Revenue by Source" breakdown took a major turn this past year. The state decided to reduce aid in an amount equal to the federal stabilization funding in order to balance their budget. This had the effect of moving several million dollars from "State Sources" to "Federal Sources". Since the Federal dollars are "one-time" money, our budget will probably take another turn next year as the state will need to replace the Federal funds with State funds.

In addition to Federal Stimulus money, the District received funds through the American Recovery and Reinvestment Act (ARRA). This was additional funding designed to save or create jobs. In our case we used these funds for reading recovery and homeless programs as well as support for special education to reduce the District's cross subsidy amount.

Although the District's general fund final budget anticipated that revenues would exceed expenditures by \$80,246, the actual results for the year reported expenditures exceeded revenues in the amount of \$1,193,735. Actual expenditures were \$2,738,005 over the budgeted amount. This was somewhat offset by revenues exceeding the budgeted amount by \$1,464,024. These variances in the budget were primarily attributed to the following:

**Revenues**

- Local revenues were \$644,682 more than the budgeted amount, but revenues from local property taxes were \$196,626 less than the budgeted amount.
- Revenues from state sources were more than the budgeted amount by \$1,214,955, but revenues from federal sources were \$280,267 less than the budgeted amount.

**Expenditures**

- Regular instruction was \$2,559,733 over budget and pupil support services was \$749,874 over budget. This was partially offset by property related expenses that were \$506,641 under budget and vocational and exceptional instruction expenses which were a combined \$536,056 less than the budgeted amounts.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

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

- Expenditures included \$4,327,313 of OPEB costs that were not included in the budget. Because these costs were funded with OPEB bond proceeds, if these costs were excluded from actual expenditures the budget to actual variance would result in a total under budget amount of \$1,589,308.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During the year the District added \$1,479,437 of capital assets to its inventory records. Additions included \$9,000 of land improvements, \$17,390 of building improvements, \$246,312 of equipment, \$434,542 of transportation vehicles, and \$772,193 of construction in progress. The District also disposed of five fully depreciated vehicles, including three buses, with an original cost of \$169,861 and \$40,688 of nearly fully depreciated equipment.

**Long-Term Debt**

As of June 30, 2010 the District's long-term indebtedness totaled \$31,712,730. This consisted of bonded indebtedness of \$33,725,000, less net unamortized bond discount and premium of \$197,400, a capital lease of \$1,100,000, and severance payable of \$1,285,243. During the year the District retired \$3,120,000 of outstanding bond principal and paid \$1,347,732 of interest on long-term outstanding bonds payable and severance payments of \$275,320.

The District issued \$4,950,000 in OPEB bonds during the year. The proceeds of these bonds were placed in an irrevocable trust and are designed to pay the "Other Post Employment Benefits" for retirees. The major benefit is a district contribution toward health insurance premiums. The proceeds of the Bond sale were necessarily run through the General Fund. This has the effect of increasing the expenses beyond what they would otherwise have been. The Bond payments will be made from a local levy which will not begin until a previous Bond issue is retired in 2012.

The District entered into a Lease Purchase arrangement for the old First National Bank building in the amount of \$1,100,000. This included a purchase price of \$700,000 and a remodeling budget of \$400,000. The payments will be made out of a Lease Levy over a period of 15 years. We have consolidated several programs at the newly named Downtown Education Center. Each of these programs had their own lease levy and by consolidating them under one room we were able to reduce our local levy by \$30,000 as well as provide a permanent home for them.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)*, in the 2009 fiscal year. In the fiscal year ended June 30, 2010, the District issued \$4,950,000 of general obligation bonds. Of the bond proceeds, \$4,327,313 was contributed to the OPEB Irrevocable Trust Fund to be used to fund the actuarial accrued liability of \$6,490,077; and \$660,513 was placed in the OPEB Debt Service Fund for payment of interest costs in the current year and subsequent two years.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**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.

The District borrowed and paid back \$9,000,000 in aid anticipation certificates to manage cash flow throughout the year. This amount was larger than normal because of recent declines in our fund balance combined with a major payment shift at the state level. We normally get 90% of anticipated funding metered out over the course of the year with a 10% clean up payment the following year. As a part of their budget balancing strategy, the state decided to decrease the current year amount from 90% to 73% resulting in 17% less state aid received in the current year. In addition to the state aid shift the state is imposing a property tax shift as well. They are requiring districts to recognize local property taxes earlier than normal and then decreasing state aid correspondingly. While these shifts are supposed to be revenue neutral they are not free. Many districts are required to borrow significant sums of money to make payroll and pay bills.

**Labor Force**

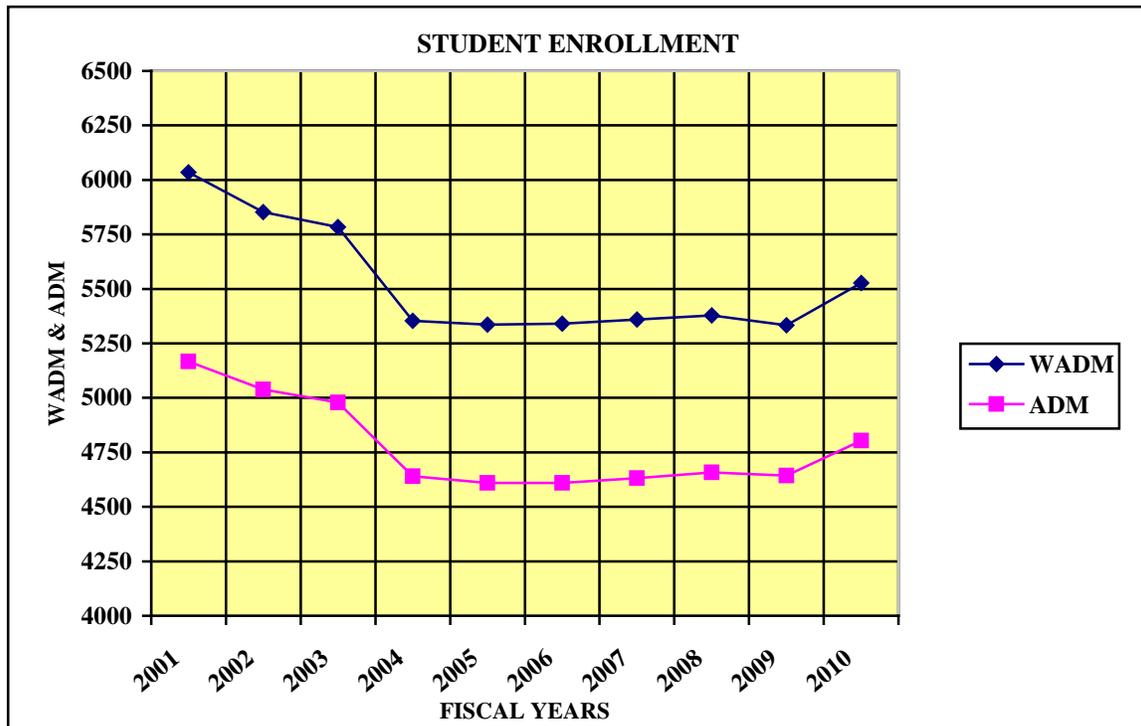
Labor contracts, which are in effect through June 30, 2011, were negotiated for the two-year period beginning July 1, 2009. Salaries, wages and benefits account for 84% of the District's general fund expenditures.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

**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, 2010**

**ASSETS**

Cash and Investments		\$ 13,993,665
Property Taxes Receivable		4,783,657
Due from Other Governmental Units		12,782,381
Other Accounts Receivable		35,650
Inventories		339,538
Prepaid Expenditures		43,678
Capital Assets:		
Land	\$ 2,630,742	
Construction in Progress	772,193	
Depreciable Capital Assets, Net of Depreciation	<u>62,725,774</u>	66,128,709
Net OPEB Benefit		<u>4,200,113</u>
Total Assets		<u><u>102,307,391</u></u>

**LIABILITIES**

Short Term Debt		8,889,002
Salaries Payable		3,427,808
Accounts Payable		913,420
Interest Payable		540,440
Due to Other Governmental Units		624
Payroll Deductions and Employer Contributions		504,172
Accrued Compensated Absences Payable		241,924
Deferred Revenue		806,538
Property Taxes Levied for Subsequent Years' Expenditures		8,710,426
Long-Term Liabilities:		
Portion Due Within One Year	3,502,195	
Portion Due After One Year	<u>32,410,648</u>	<u>35,912,843</u>
Total Liabilities		<u><u>59,947,197</u></u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt		32,601,109
Restricted for:		
State Mandated Reserves		3,405,889
Capital Projects		327,811
Debt Redemption		1,059,979
Unrestricted		<u>4,965,406</u>
Total Net Assets		<u><u>\$ 42,360,194</u></u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**

<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>
<b>Governmental Activities</b>				
District and School Administration	\$ 1,865,600	\$ -	\$ 358,293	\$ (1,507,307)
District Support Services	1,132,144	-	-	(1,132,144)
Regular Instruction	21,836,327	712,726	10,306,223	(10,817,378)
Vocational Instruction	386,572	-	41,976	(344,596)
Exceptional Instruction	10,725,372	-	7,677,144	(3,048,228)
Community Education and Services	1,613,222	1,256,111	797,122	440,011
Instructional Support Services	1,736,910	-	765,010	(971,900)
Pupil Support Services	7,963,189	1,090,437	2,449,910	(4,422,842)
Site, Buildings and Equipment	6,940,185	65,937	117,062	(6,757,186)
Fiscal and Other Fixed Costs	183,820	-	-	(183,820)
Interest on Long-Term Debt	1,464,315	-	-	(1,464,315)
Total Governmental Activities	<u>\$ 55,847,656</u>	<u>\$ 3,125,211</u>	<u>\$ 22,512,740</u>	<u>(30,209,705)</u>
 <b>General Revenues:</b>				
<b>Property Taxes:</b>				
				4,470,889
				330,529
				3,808,170
				25,809,209
				25,721
				346,763
				<u>34,791,281</u>
				<u>7,589</u>
				<u>4,589,165</u>
				<u>37,703,900</u>
				<u>67,129</u>
				<u>\$ 42,360,194</u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	General	Debt Redemption	Other Governmental Funds	Totals
<b><u>ASSETS</u></b>				
Cash and Investments	\$ 9,261,935	\$ 3,161,473	\$ 1,170,254	\$ 13,593,662
Cash with Fiscal Agent	-	-	400,003	400,003
Property Taxes Receivable	2,444,742	2,149,071	189,844	4,783,657
Due from Other Funds	72,192	-	-	72,192
Due from Other Governmental Units	12,448,772	93,075	240,534	12,782,381
Other Accounts Receivable	35,650	-	-	35,650
Inventories	311,534	-	28,004	339,538
Prepaid Expenditures	43,678	-	-	43,678
<b>Total Assets</b>	<b>\$ 24,618,503</b>	<b>\$ 5,403,619</b>	<b>\$ 2,028,639</b>	<b>\$ 32,050,761</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b><u>Liabilities</u></b>				
Salaries Payable	\$ 3,336,397	\$ -	\$ 91,411	\$ 3,427,808
Accounts Payable	895,684	1,700	16,036	913,420
Interest Payable	142,815	-	-	142,815
Outstanding Certificates of Indebtedness	8,889,002	-	-	8,889,002
Due to Other Funds	-	-	72,192	72,192
Due to Other Governmental Units	624	-	-	624
Payroll Deductions and Employer Contributions	490,147	-	14,025	504,172
Deferred Revenue	803,988	-	2,550	806,538
Deferred Revenue - Delinquent Taxes	112,334	127,459	9,887	249,680
Property Taxes Levied for Subsequent Years' Expenditures	4,415,020	3,944,315	351,091	8,710,426
<b>Total Liabilities</b>	<b>19,086,011</b>	<b>4,073,474</b>	<b>557,192</b>	<b>23,716,677</b>
<b><u>Fund Equity</u></b>				
<b>Reserved Fund Balances:</b>				
Staff Development	113,671	-	-	113,671
Deferred Maintenance	141,909	-	-	141,909
Health and Safety	(1,046,811)	-	-	(1,046,811)
Projects Funded with Certificates of Participation (Lease-Purchase Agreement)	-	-	327,811	327,811
Operating Capital	1,984,756	-	-	1,984,756
State Approved Alternative Programs	15,341	-	-	15,341
Gifted and Talented	154,663	-	-	154,663
Safe Schools Levy	65,361	-	-	65,361
Community Education	-	-	21,133	21,133
Early Childhood and Family Education	-	-	160,975	160,975
School Readiness	-	-	41,463	41,463
Adult Basic Education	-	-	11,282	11,282
<b>Unreserved Fund Balances:</b>				
Designated for Separation/Retirement Benefits	300,000	-	-	300,000
Undesignated	3,803,602	1,330,145	908,783	6,042,530
<b>Total Fund Equity</b>	<b>5,532,492</b>	<b>1,330,145</b>	<b>1,471,447</b>	<b>8,334,084</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 24,618,503</b>	<b>\$ 5,403,619</b>	<b>\$ 2,028,639</b>	<b>\$ 32,050,761</b>

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, 2010**

Total Fund Balances - Governmental Funds \$ 8,334,084

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	\$ 102,622,335	
Accumulated Depreciation	(36,493,626)	
Net Depreciated Value of Capital Assets		66,128,709

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

(397,625)

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

249,680

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

General Obligation Bonds Payable	(33,725,000)	
Net Unamortized Bond Discount/Premium	197,400	
Capital Lease Payable	(1,100,000)	
Compensated Absences Payable	(241,924)	
Other Post-Employment Benefits (OPEB)	4,200,113	
Severance Payable	(1,285,243)	(31,954,654)

Total Net Assets - Governmental Activities \$ 42,360,194

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Debt Redemption</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 4,449,939	\$ 3,805,403	\$ 329,548	\$ 8,584,890
Other Local and County Revenues	1,797,939	-	622,412	2,420,351
Revenues from State Sources	38,106,926	344,722	695,008	39,146,656
Revenues from Federal Sources	7,379,761	-	1,648,470	9,028,231
Sales and Other Conversions of Assets	115,836	-	1,090,437	1,206,273
Investment Earnings	14,635	5,875	5,211	25,721
<b>Total Revenues</b>	<b>51,865,036</b>	<b>4,156,000</b>	<b>4,391,086</b>	<b>60,412,122</b>
<b><u>Expenditures</u></b>				
District and School Administration	2,142,009	-	-	2,142,009
District Support Services	1,162,156	-	-	1,162,156
Regular Instruction	25,635,868	-	-	25,635,868
Vocational Instruction	384,662	-	-	384,662
Exceptional Instruction	10,739,363	-	-	10,739,363
Community Education and Services	-	-	1,610,991	1,610,991
Instructional Support Services	1,770,615	-	-	1,770,615
Pupil Support Services	5,490,102	-	2,366,729	7,856,831
Site, Buildings, and Equipment	5,550,176	-	772,192	6,322,368
Fiscal and Other Fixed Costs	183,820	-	-	183,820
Debt Service:				
Principal Retirement	-	3,120,000	-	3,120,000
Interest and Fiscal Fees	-	1,208,531	141,532	1,350,063
<b>Total Expenditures</b>	<b>53,058,771</b>	<b>4,328,531</b>	<b>4,891,444</b>	<b>62,278,746</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(1,193,735)</b>	<b>(172,531)</b>	<b>(500,358)</b>	<b>(1,866,624)</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Proceeds from General Obligation OPEB Bonds	5,012,575	-	-	5,012,575
Proceeds from Lease-Purchase Agreement	-	-	1,100,000	1,100,000
Operating Transfers In	-	-	660,513	660,513
Operating Transfers Out	(660,513)	-	-	(660,513)
<b>Total Other Financing Sources (Uses)</b>	<b>4,352,062</b>	<b>-</b>	<b>1,760,513</b>	<b>6,112,575</b>
<b><u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u></b>	<b>3,158,327</b>	<b>(172,531)</b>	<b>1,260,155</b>	<b>4,245,951</b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b>2,374,165</b>	<b>1,502,676</b>	<b>211,292</b>	<b>4,088,133</b>
<b><u>Fund Balances, End of Year</u></b>	<b>\$ 5,532,492</b>	<b>\$ 1,330,145</b>	<b>\$ 1,471,447</b>	<b>\$ 8,334,084</b>

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, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 4,245,951

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	\$ 1,479,437	
Loss on Disposal of Assets	(5,649)	
Depreciation	<u>(2,514,427)</u>	(1,040,639)

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.

24,698

Interest on long-term debt 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, 2010	(397,625)	
Accrued Interest at June 30, 2009	<u>310,858</u>	(86,767)

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, 2010	(241,924)	
Compensated Absences at June 30, 2009	<u>223,284</u>	(18,640)

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	3,120,000	
Debt Proceeds	(6,112,575)	
Net Amortization of Bond Discount/Premium	(27,485)	
Net Increase in Other Post Employment Benefits (OPEB)	4,336,236	
Net Decrease in Severance Payable	<u>148,386</u>	<u>1,464,562</u>

Change in Net Assets of Governmental Activities \$ 4,589,165

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**TRUST AND AGENCY FUNDS**  
**JUNE 30, 2010**

	<b><u>OPEB Irrevocable Trust Fund</u></b>	<b><u>Combined Agency Funds</u></b>
<b><u>Assets</u></b>		
Cash and Investments	<b><u>\$ 4,468,353</u></b>	<b><u>\$ 459,722</u></b>
<b><u>Liabilities</u></b>		
Payroll Deductions	-	\$ 135,375
Due to Student Organizations	-	<u>324,347</u>
<b><u>Total Liabilities</u></b>	-	<b><u>\$ 459,722</u></b>
<b><u>Net Assets</u></b>		
Net Assets Held in Trust	<b><u>\$ 4,468,353</u></b>	

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**TRUST FUND**  
**YEAR ENDED JUNE 30, 2010**

	<b><u>OPEB Irrevocable Trust Fund</u></b>
<b><u>Additions:</u></b>	
Contributions	\$ 4,327,313
Investment Earnings	<u>141,269</u>
Total Additions	4,468,582
 <b><u>Deductions:</u></b>	
Administrative Expenses	<u>229</u>
 <b><u>Change in Net Assets</u></b>	 4,468,353
 <b><u>Net Assets - Beginning of Year</u></b>	 <u>-</u>
 <b><u>Net Assets - End of Year</u></b>	 <u><u>\$ 4,468,353</u></u>

See Accompanying Notes to Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010. 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, 2010**

**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 was inter-fund activities between the general fund and the building construction and OPEB debt service funds 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 (trust and 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 2009 payable 2010 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, 2010**

**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**

**Trust Funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

**Post-Employment Benefits Irrevocable Trust Fund** – The District is the trustee, or fiduciary, for assets set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund are expensed to the general, food service or community service 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.

Additionally, the District reports the following non-major funds:

**Special Revenue Funds** – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Food Service Fund** – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

**Community Service Fund** – Accounts for the revenues and expenditures related to recreation, public use of school facilities, non-public pupils, adult education programs, and early childhood and family development.

**Building Construction Fund** – Accounts for the acquisition or construction of major capital assets, generally financed through the issuance of general long-term debt.

**OPEB Debt Service Fund** – Accounts for the accumulation of resources for, and the payment of OPEB bonds principal, interest and related costs.

**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 Wells Fargo Bank consisting of good faith proceeds of the capital lease for the building construction fund.

**Property Taxes Receivable** represents current and delinquent taxes receivable at June 30, 2010. 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 2003 through 2009 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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**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.

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

**Deferred Revenue – Delinquent Property Taxes** represents property taxes for the years 2003 through 2009 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, 2010, 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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**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, 2010 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 11 for severance liability amount.

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 paid for active employees are funded on a pay-as-you-go basis. Retiree costs, net of retiree contributions, are funded through an OPEB Irrevocable Trust Fund. During 2010 the District issued OPEB Bonds with the proceeds being contributed into the Trust fund. The amount contributed to the Trust was actuarially determined in accordance with GASB 45 at July 1, 2009.

**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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 2 – Stewardship, Compliance, and Accountability**

**A. Fund Balance Deficits**

The District had a deficit in the fund balance reserved for health and safety of the general fund in the amount of \$1,046,811. The deficit will be eliminated by future tax levies.

**B. Excess of Expenditures Over Budget**

Expenditures exceeded the budget for the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	\$ 50,320,766	\$ 53,058,771	\$ 2,738,005
Special Revenue Fund:			
Food Service Fund	2,226,529	2,354,068	127,541

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

**NOTE 3 – Deposit and Investments**

The District's cash and investments are as follows:

	<u>Governmental Activities/ Funds</u>	<u>OPEB Irrevocable Trust Fund</u>	<u>Fiduciary Funds</u>
Pooled Depository Accounts:			
Checking	\$ 2,825,203	\$ -	\$ -
Savings	140,475	-	-
Student Activity Depository Accounts - Checking and Money Market	-	-	324,347
Pooled Investments - MSDLAF+	11,027,987	-	-
Non-pooled Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	-	135,375
Associated Wealth Management	-	4,468,353	-
Total Cash and Investments	<u>\$ 13,993,665</u>	<u>\$ 4,468,353</u>	<u>\$ 459,722</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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – Deposit and Investments (Continued)**

**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, 2010.

**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;
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 matures 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 investments are through the Minnesota School District Liquid Asset Fund Plus (MSDLAF+) and Associated Wealth Management, which are external investment pools that meets the definition of a 2a7-like pool. Because the District's investments are through external investment pools 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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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 2009 (payable in 2010) was \$29,829,315 with a referendum market value of \$2,137,674,525. The tax capacity rate was 20.993% and the referendum rate was 0.12804%.

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.

**NOTE 5 – Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2010 are as follows:

	<b>General Fund</b>	<b>Debt Redemption Fund</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
Other Minnesota School Districts	\$ 315,088	\$ -	\$ -	\$ 315,088
Minnesota Department of Education:				
State Aids and Grants	10,540,292	93,075	114,263	10,747,630
Federal Aids and Grants	1,577,285	-	126,271	1,703,556
Hubbard County	16,107	-	-	16,107
Totals	<u>\$ 12,448,772</u>	<u>\$ 93,075</u>	<u>\$ 240,534</u>	<u>\$ 12,782,381</u>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 6 – Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
<b>Non-depreciable Capital Assets</b>				
Land	\$ 2,630,742	\$ -	\$ -	\$ 2,630,742
Construction in Progress	-	772,193	-	772,193
<b>Total Non-depreciable Capital Assets</b>	<u>2,630,742</u>	<u>772,193</u>	<u>-</u>	<u>3,402,935</u>
<b>Depreciable Capital Assets:</b>				
Land Improvements	3,135,794	9,000	-	3,144,794
Buildings	85,161,627	17,390	-	85,179,017
Equipment	10,425,284	680,854	210,549	10,895,589
<b>Total Depreciable Capital Assets</b>	<u>98,722,705</u>	<u>707,244</u>	<u>210,549</u>	<u>99,219,400</u>
<b>Total Capital Assets</b>	<u>101,353,447</u>	<u>1,479,437</u>	<u>210,549</u>	<u>102,622,335</u>
<b>Accumulated Depreciation:</b>				
Land Improvements	1,490,548	138,364	-	1,628,912
Buildings	25,551,253	1,682,277	-	27,233,530
Equipment	7,142,298	693,786	204,900	7,631,184
<b>Total Accumulated Depreciation</b>	<u>34,184,099</u>	<u>2,514,427</u>	<u>204,900</u>	<u>36,493,626</u>
<b>Capital Assets, Net of Depreciation</b>	<u>\$ 67,169,348</u>	<u>\$ (1,034,990)</u>	<u>\$ 5,649</u>	<u>\$ 66,128,709</u>

Depreciation expense was charged to the following program services:

District Support Services	\$ 3,150
Regular Instruction	18,180
Vocational Instruction	20,635
Exceptional Instruction	42,831
Instructional Support Services	14,663
Pupil Support Services	479,233
Site, Buildings and Equipment	1,935,735
<b>Total</b>	<u>\$ 2,514,427</u>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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 <sup>st</sup> ten years prior to July 1, 2006	1.2 percent per year	2.2 percent per year
1 <sup>st</sup> 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

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).

or

**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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 7 – Pension Plans (Continued)**

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](http://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

**Funding Policy**

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

The District's contributions for the years ending June 30, 2010, 2009, and 2008 were \$1,151,764, \$1,179,477, and \$1,170,485, respectively, equal to the required contributions for each year as set by state statute.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 7 – Pension Plans (Continued)**

**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.

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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 7 – Pension Plans (Continued)**

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](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 6.75% for Coordinated Plan members in 2009, and 7.0% for Coordinated Plan members in 2010.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2010, 2009, and 2008 were \$707,894, \$680,625, and \$612,175, 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 Post-employment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for post-employment healthcare benefits other than pensions as of July 1, 2009.

**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. As of July 1, 2009, there are 755 active participants and 85 retired participants including 25 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.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**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 July 1, 2009 was \$311,461.

**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	\$ 679,515
Interest on Net OPEB Obligation	6,126
Adjustment to Annual Required Contribution	<u>(8,175)</u>
Annual OPEB Cost (Expense)	677,466
Contributions Made	<u>(5,241,312)</u>
Increase in Net OPEB Obligation	(4,563,846)
Net OPEB Obligation - Beginning of Year	363,733
Net OPEB Obligation (Benefit) - End of Year	<u><u>\$ (4,200,113)</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Benefit)
<u>June 30, 2010</u>	\$ 677,466	740.1%	<u>\$ (4,200,113)</u>

**D. Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$6,440,571, The annual payroll for active employees covered by the plan in the actuarial valuation was \$29,659,335 for a ratio of UAAL to covered payroll of 21.72%.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

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, 2009 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, 2010 was 27 years.

**NOTE 9 - Short-Term Debt**

Short-term debt was issued for the interim financing of general fund operations. The activity for the short-term borrowings during the fiscal year 2010 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Retirements</u>	<u>Ending Balance</u>
General Obligation Certificates:				
Series 2009	\$ -	\$ 8,864,406	\$ -	\$ 8,864,406
Unamortized Premium	-	126,495	101,899	24,596
Total Short-Term Debt	<u>\$ -</u>	<u>\$ 8,990,901</u>	<u>\$ 101,899</u>	<u>\$ 8,889,002</u>

The District obtained a 2% fixed rate short-term loan through the Minnesota Tax and Aid Anticipation Program on August 27, 2009 for 8,990,901. The loan matures on September 10, 2010.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 10 – Capital Lease**

The District has entered into a lease agreement with Wells Fargo Bank. The lease agreement qualifies as a capital lease for accounting purposes. A summary of changes in the capital lease is as follows:

	<u>Beginning</u>		<u>Payments and</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance</u>
Wells Fargo Bank	\$ -	\$ 1,100,000	\$ -	\$ 1,100,000

The payments on the capital lease will be accounted for in the general fund. The annual requirements to amortize the capital lease at June 30, 2010 are as follows:

<u>Fiscal</u>	<u>Lease</u>	<u>Lease</u>	
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 19,525	\$ 34,714	\$ 54,239
2012	50,702	57,777	108,479
2013	53,482	54,997	108,479
2014	56,414	52,064	108,478
2015	59,508	48,971	108,479
2016-2020	350,211	192,184	542,395
2021-2025	457,347	85,048	542,395
2026	52,811	1,429	54,240
Totals	<u>\$ 1,100,000</u>	<u>\$ 527,184</u>	<u>\$ 1,627,184</u>

**NOTE 11 - Long-Term Debt**

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

	<u>Beginning</u>	<u>Prior Period</u>		<u>Payments and</u>	<u>Ending</u>	<u>Current Amounts</u>	
	<u>Balance</u>	<u>Adjustment</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds:							
2004 Refunding Bonds	\$ 1,810,000	\$ -	\$ -	\$ 590,000	\$ 1,220,000	\$ 595,000	\$ 37,850
2005 Refunding Bonds	30,085,000	-	-	2,530,000	27,555,000	2,615,000	1,074,950
2009A Taxable OPEB Bonds	-	-	4,950,000	-	4,950,000	-	259,590
Total General Obligation Bonds	31,895,000	-	4,950,000	3,120,000	33,725,000	3,210,000	1,372,390
Unamortized Bond Discounts	(287,460)	-	-	(31,111)	(256,349)	(31,111)	-
Unamortized Bond Premium	-	-	62,575	3,626	58,949	3,781	-
Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium	31,607,540	-	5,012,575	3,092,515	33,527,600	3,182,670	1,372,390
Capital Lease Payable (See Note 10)	-	-	1,100,000	-	1,100,000	19,525	34,714
Separation and Retirement Benefits							
Other Post Employment Benefits (OPEB)	363,733	(227,610)	677,466	5,013,702	(4,200,113)	-	-
Severance Payable	1,273,148	160,481	126,934	275,320	1,285,243	300,000	-
Total Separation and Retirement Benefits Payable	1,636,881	(67,129)	804,400	5,289,022	(2,914,870)	300,000	-
Total Long-Term Debt, Before Reclassification of Other Post-Employment Benefits	<u>\$ 33,244,421</u>	<u>\$ (67,129)</u>	<u>\$ 6,916,975</u>	<u>\$ 8,381,537</u>	<u>\$ 31,712,730</u>	<u>\$ 3,502,195</u>	<u>\$ 1,407,104</u>
Add-back Other Post-Employment Benefits Reported as an Other Asset					4,200,113		
Total Long-Term Debt					<u>\$ 35,912,843</u>		

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 11 - Long-Term Debt (Continued)**

General obligation bonds are comprised of the following individual issues at June 30, 2010:

\$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.

\$4,950,000 General Obligation Taxable OPEB Bonds, Series 2009A, issued on July 15, 2009, with interest rates ranging from 5.00% to 5.750%. Interest payments commence on February 1, 2010 and are due each February 1 and August 1 thereafter through year 2025. Principal payments commence on February 1, 2013 and each year thereafter through 2025 in amounts ranging from \$285,000 to \$505,000.

The annual requirements to amortize the general obligation bonds at June 30, 2010 are as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Bond</u> <u>Principal</u>	<u>Bond</u> <u>Interest</u>	<u>Total</u>
2011	\$ 3,210,000	\$ 1,372,390	\$ 4,582,390
2012	3,325,000	1,269,552	4,594,552
2013	3,085,000	1,161,803	4,246,803
2014	3,205,000	1,049,552	4,254,552
2015	3,340,000	918,352	4,258,352
2016-2020	15,280,000	2,382,588	17,662,588
2021-2025	2,280,000	396,013	2,676,013
Totals	<u>\$ 33,725,000</u>	<u>\$ 8,550,250</u>	<u>\$ 42,275,250</u>

General obligation bonds of the District are reflected in the district-wide financial statements and current requirements for principal and interest expenditures of the 2004 and 2005A bond issues are accounted for in the Debt Service Fund. The current requirements for principal and interest expenditures of the 2009 OPEB bond issue will be accounted for in a separate Debt Service Fund.

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, 2010.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2010. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2009. Estimated additions and subtractions from that estimate have occurred since that date.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 12 - Reserved and Unreserved – Designated 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 Projects Funded by Certificates of Participation (Lease-Purchase Agreement)** represents the remaining funds from issuances of the certificates of participation.

**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.

**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.

**Unreserved - Designated for Separation/Retirement Benefits** represents resources segregated from the Unreserved/Undesignated Fund Balance for retirement benefits, including compensated absences, pensions, other post-employment benefits and termination benefits (as defined in GASB Statement Nos. 16, 27, 45 47 and 50).

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 13 - 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 carries various commercial insurance policies covering workers' compensation 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 14 - 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, 2010 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 15 – Prior Period Adjustments**

In prior years, the District had used non-actuarial based methods to calculate severance liability amounts. As of July 1, 2009, the liabilities for severance payable and OPEB were re-calculated based on an actuarial valuation per GASB 16 and GASB 45, respectively. This resulted in prior period adjustments that increased severance payable by \$160,481 and decreased OPEB payable by \$227,610. These adjustments had a net impact of increasing unrestricted net assets by \$67,129.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2010**

	<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>
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 3,916,862	\$ 4,646,565	\$ 4,449,939	\$ (196,626)
Other Local and County Revenues	1,696,819	1,153,257	1,797,939	644,682
Revenues from State Sources	39,614,196	36,891,971	38,106,926	1,214,955
Revenues from Federal Sources	3,287,484	7,660,028	7,379,761	(280,267)
Sales and Other Conversions of Assets	19,191	19,191	115,836	96,645
Investment Earnings	150,000	30,000	14,635	(15,365)
<b>Total Revenues</b>	<b>48,684,552</b>	<b>50,401,012</b>	<b>51,865,036</b>	<b>1,464,024</b>
<b><u>Expenditures</u></b>				
District and School Administration	1,793,745	1,856,238	2,142,009	(285,771)
District Support Services	1,037,614	1,108,514	1,162,156	(53,642)
Regular Instruction	21,966,591	23,076,135	25,635,868	(2,559,733)
Vocational Instruction	675,804	650,311	384,662	265,649
Exceptional Instruction	10,344,485	11,009,770	10,739,363	270,407
Instructional Support Services	1,874,801	1,654,921	1,770,615	(115,694)
Pupil Support Services	4,800,248	4,740,228	5,490,102	(749,874)
Site, Buildings and Equipment	6,056,523	6,056,817	5,550,176	506,641
Fiscal and Other Fixed Costs	167,832	167,832	183,820	(15,988)
<b>Total Expenditures</b>	<b>48,717,643</b>	<b>50,320,766</b>	<b>53,058,771</b>	<b>(2,738,005)</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(33,091)</b>	<b>80,246</b>	<b>(1,193,735)</b>	<b>(1,273,981)</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Bond Proceeds	-	-	5,012,575	5,012,575
Operating Transfers Out	-	-	(660,513)	(660,513)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>4,352,062</b>	<b>4,352,062</b>
<b><u>Excess of Revenues and Other Financing</u></b>				
<b><u>Source Over (Under) Expenditures</u></b>				
<b><u>and Other Financing Uses</u></b>	<b>(33,091)</b>	<b>80,246</b>	<b>3,158,327</b>	<b>3,078,081</b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b>2,374,165</b>	<b>2,374,165</b>	<b>2,374,165</b>	<b>-</b>
<b><u>Fund Balances, End of Year</u></b>	<b>\$ 2,341,074</b>	<b>\$ 2,454,411</b>	<b>\$ 5,532,492</b>	<b>\$ 3,078,081</b>

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT BENEFIT PLAN**  
**JUNE 30, 2010**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
July 1, 2007	\$ -	\$ 5,472,770	\$ 5,472,770	0.00%	\$ 29,456,373	18.58%
July 1, 2009	49,506	6,490,077	6,440,571	0.76%	29,659,335	21.72%

See Accompanying Notes to the Required Supplementary Information.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2010**

**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
General Fund	\$ 50,320,766	\$ 53,058,771	\$ 2,738,005

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 available as Governmental Accounting Standards Board Statement 45 was implemented during the 2008 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, 2010**

	<b><u>Special Revenue Funds</u></b>				<b><u>Totals</u></b>
	<b><u>Food Service</u></b>	<b><u>Community Service</u></b>	<b><u>Building Construction</u></b>	<b><u>OPEB Debt Service</u></b>	
<b><u>ASSETS</u></b>					
Cash and Investments	\$ 364,577	\$ 282,142	\$ -	\$ 523,535	\$ 1,170,254
Cash with Fiscal Agent	-	-	400,003	-	400,003
Property Taxes Receivable	-	189,844	-	-	189,844
Due from Other Governmental Units	30,532	210,002	-	-	240,534
Inventories	28,004	-	-	-	28,004
<b><u>Total Assets</u></b>	<b><u>\$ 423,113</u></b>	<b><u>\$ 681,988</u></b>	<b><u>\$ 400,003</u></b>	<b><u>\$ 523,535</u></b>	<b><u>\$ 2,028,639</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
<b><u>Liabilities</u></b>					
Salaries Payable	\$ 42,533	\$ 48,878	\$ -	\$ -	\$ 91,411
Accounts Payable	5,476	10,360	-	200	16,036
Due To Other Funds	-	-	72,192	-	72,192
Payroll Deductions and Employer Contributions	6,510	7,515	-	-	14,025
Deferred Revenue	-	2,550	-	-	2,550
Deferred Revenue - Delinquent Taxes	-	9,887	-	-	9,887
Property Taxes Levied for Subsequent Years' Expenditures	-	351,091	-	-	351,091
<b><u>Total Liabilities</u></b>	<b><u>54,519</u></b>	<b><u>430,281</u></b>	<b><u>72,192</u></b>	<b><u>200</u></b>	<b><u>557,192</u></b>
<b><u>Fund Equity</u></b>					
<b><u>Reserved Fund Balances:</u></b>					
Community Education	-	21,133	-	-	21,133
Early Childhood and Family Education	-	160,975	-	-	160,975
School Readiness	-	41,463	-	-	41,463
Adult Basic Education	-	11,282	-	-	11,282
Projects Funded Under Lease-Purchase Agreement	-	-	327,811	-	327,811
Unreserved-Undesignated Fund Balance	368,594	16,854	-	523,335	908,783
<b><u>Total Fund Equity</u></b>	<b><u>368,594</u></b>	<b><u>251,707</u></b>	<b><u>327,811</u></b>	<b><u>523,335</u></b>	<b><u>1,471,447</u></b>
<b><u>Total Liabilities and Fund Equity</u></b>	<b><u>\$ 423,113</u></b>	<b><u>\$ 681,988</u></b>	<b><u>\$ 400,003</u></b>	<b><u>\$ 523,535</u></b>	<b><u>\$ 2,028,639</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**COMBING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>Special Revenue Funds</u>				<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Building Construction</u>	<u>OPEB Debt Service</u>	
<b><u>Revenues</u></b>					
Local Property Taxes	\$ -	\$ 329,548	\$ -	\$ -	\$ 329,548
Other Local and County Revenues	-	622,412	-	-	622,412
Revenues from State Sources	112,192	582,816	-	-	695,008
Revenues from Federal Sources	1,435,831	212,639	-	-	1,648,470
Sales and Other Conversions of Assets	1,090,437	-	-	-	1,090,437
Investment Earnings	320	534	3	4,354	5,211
<b>Total Revenues</b>	<b><u>2,638,780</u></b>	<b><u>1,747,949</u></b>	<b><u>3</u></b>	<b><u>4,354</u></b>	<b><u>4,391,086</u></b>
<b><u>Expenditures</u></b>					
Community Education and Services	-	1,610,991	-	-	1,610,991
Pupil Support Services	2,354,068	12,661	-	-	2,366,729
Site, Buildings and Equipment	-	-	772,192	-	772,192
Debt Service:					
Interest and Fiscal Fees	-	-	-	141,532	141,532
<b>Total Expenditures</b>	<b><u>2,354,068</u></b>	<b><u>1,623,652</u></b>	<b><u>772,192</u></b>	<b><u>141,532</u></b>	<b><u>4,891,444</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>284,712</u></b>	<b><u>124,297</u></b>	<b><u>(772,189)</u></b>	<b><u>(137,178)</u></b>	<b><u>(500,358)</u></b>
<b><u>Other Financing Sources</u></b>					
Capital Lease Proceeds	-	-	1,100,000	-	1,100,000
Operating Transfers In	-	-	-	660,513	660,513
<b>Total Other Financing Sources</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,100,000</u></b>	<b><u>660,513</u></b>	<b><u>1,760,513</u></b>
<b><u>Excess of Revenues and Other Financing Sources Over Expenditures</u></b>	<b><u>284,712</u></b>	<b><u>124,297</u></b>	<b><u>327,811</u></b>	<b><u>523,335</u></b>	<b><u>1,260,155</u></b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b><u>83,882</u></b>	<b><u>127,410</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>211,292</u></b>
<b><u>Fund Balances, End of Year</u></b>	<b><u>\$ 368,594</u></b>	<b><u>\$ 251,707</u></b>	<b><u>\$ 327,811</u></b>	<b><u>\$ 523,335</u></b>	<b><u>\$ 1,471,447</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**FOOD SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Revenues from State Sources	\$ 84,840	\$ 84,840	\$ 112,192	\$ 27,352
Revenues from Federal Sources	1,052,420	1,079,817	1,435,831	356,014
Sales and Other Conversions of Assets	1,035,250	1,035,250	1,090,437	55,187
Investment Earnings	-	-	320	320
<b><u>Total Revenues</u></b>	<b><u>2,172,510</u></b>	<b><u>2,199,907</u></b>	<b><u>2,638,780</u></b>	<b><u>438,873</u></b>
<b><u>Expenditures</u></b>				
<b><u>Pupil Support Services</u></b>				
Salaries and Wages	656,530	656,530	693,988	(37,458)
Employee Benefits	170,322	170,322	234,148	(63,826)
Purchased Services	46,182	46,182	61,944	(15,762)
Supplies and Materials	1,315,745	1,315,745	1,331,802	(16,057)
Capital Expenditures	10,195	37,592	32,041	5,551
Other Expenditures	158	158	145	13
<b><u>Total Expenditures</u></b>	<b><u>2,199,132</u></b>	<b><u>2,226,529</u></b>	<b><u>2,354,068</u></b>	<b><u>(127,539)</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>(26,622)</u></b>	<b><u>(26,622)</u></b>	<b><u>284,712</u></b>	<b><u>311,334</u></b>
<b><u>Fund Balance, Beginning of Year</u></b>	<b><u>83,882</u></b>	<b><u>83,882</u></b>	<b><u>83,882</u></b>	<b><u>-</u></b>
<b><u>Fund Balance, End of Year</u></b>	<b><u>\$ 57,260</u></b>	<b><u>\$ 57,260</u></b>	<b><u>\$ 368,594</u></b>	<b><u>\$ 311,334</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**COMMUNITY SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2010**

	<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>
<b><u>Revenues</u></b>				
Local Property Taxes	\$ 359,171	\$ 359,171	\$ 329,548	\$ (29,623)
Other Local and County Revenues	527,142	527,142	622,412	95,270
Revenues from State Sources	769,355	629,868	582,816	(47,052)
Revenues from Federal Sources	8,040	250,383	212,639	(37,744)
Investment Earnings	-	-	534	534
<b><u>Total Revenues</u></b>	<b><u>1,663,708</u></b>	<b><u>1,766,564</u></b>	<b><u>1,747,949</u></b>	<b><u>(18,615)</u></b>
<b><u>Expenditures</u></b>				
<b><u>Community Education and Services</u></b>				
Salaries and Wages	1,080,428	1,114,986	1,019,870	95,116
Employee Benefits	232,681	230,774	233,358	(2,584)
Purchased Services	138,821	198,969	238,710	(39,741)
Supplies and Materials	180,682	195,879	109,920	85,959
Capital Expenditures	6,471	6,471	2,108	4,363
Other Expenditures	-	6,000	7,025	(1,025)
<b>Total Community Education and Services</b>	<b><u>1,639,083</u></b>	<b><u>1,753,079</u></b>	<b><u>1,610,991</u></b>	<b><u>142,088</u></b>
<b><u>Pupil Support Services</u></b>				
Salaries and Wages	13,672	13,762	10,226	3,536
Employee Benefits	1,934	1,995	1,464	531
Purchased Services	970	-	-	-
Supplies and Materials	15,992	19,271	971	18,300
<b>Total Pupil Support Services</b>	<b><u>32,568</u></b>	<b><u>35,028</u></b>	<b><u>12,661</u></b>	<b><u>22,367</u></b>
<b><u>Total Expenditures</u></b>	<b><u>1,671,651</u></b>	<b><u>1,788,107</u></b>	<b><u>1,623,652</u></b>	<b><u>164,455</u></b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b><u>(7,943)</u></b>	<b><u>(21,543)</u></b>	<b><u>124,297</u></b>	<b><u>145,840</u></b>
<b><u>Fund Balances, Beginning of Year</u></b>	<b><u>127,410</u></b>	<b><u>127,410</u></b>	<b><u>127,410</u></b>	<b><u>-</u></b>
<b><u>Fund Balances, End of Year</u></b>	<b><u>\$ 119,467</u></b>	<b><u>\$ 105,867</u></b>	<b><u>\$ 251,707</u></b>	<b><u>\$ 145,840</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b><u>Student Activities</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	\$ 326,207	\$ 569,013	\$ 570,873	\$ 324,347
<b><u>Liabilities</u></b>				
Due to Student Organizations	\$ 326,207	\$ 569,013	\$ 570,873	\$ 324,347
 <b><u>BEA Retiree Fringe Benefit Pool</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	\$ 130,373	\$ 163,239	\$ 158,237	\$ 135,375
<b><u>Liabilities</u></b>				
Due to Bemidji Education Association	\$ 130,373	\$ 163,239	\$ 158,237	\$ 135,375
 <b><u>Total All Agency Funds</u></b>				
<b><u>Assets</u></b>				
Cash and Investments	\$ 456,580	\$ 732,252	\$ 729,110	\$ 459,722
<b><u>Liabilities</u></b>				
Due to Bemidji Education Association	130,373	163,239	158,237	135,375
Due to Student Organizations	326,207	569,013	570,873	324,347
<b><u>Total Liabilities</u></b>	<b>\$ 456,580</b>	<b>\$ 732,252</b>	<b>\$ 729,110</b>	<b>\$ 459,722</b>

FISCAL COMPLIANCE REPORT - 6/30/2010  
District: BEMIDJI (0031 - 01)

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$51,865,036	\$51,865,036	\$0	Total Revenue	\$3	\$3	\$0
Total Expenditures	\$53,058,771	\$53,058,771	\$0	Total Expenditures	\$772,192	\$772,193	(\$1)
Reserved:				Reserved:			
4.03 Staff Development	\$113,671	\$113,671	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$141,909	\$141,909	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	(\$1,046,811)	(\$1,046,811)	\$0	4.13 Project Funded by COP	327,811	\$327,811	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	Unreserved:			
4.13 Project Funded by COP	\$0	\$0	\$0	4.22 Unreserved/Undesignated	-	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	<b>07 DEBT SERVICE</b>			
4.16 Levy Reduction	\$0	\$0	\$0	Total Revenue	\$4,156,000	\$4,156,000	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0	Total Expenditures	\$4,328,531	\$4,328,531	\$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	\$1,984,756	\$1,984,756	\$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	\$1,330,145	\$1,330,145	\$0
4.28 Learning & Development	\$0	\$0	\$0	<b>08 TRUST</b>			
4.34 Area Learning Center	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$15,341	\$15,341	\$0	Reserved:			
4.38 Gifted & Talented	\$154,663	\$154,663	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.41 Basic Skills Program	\$0	\$0	\$0	Unreserved:			
4.45 Career Tech Programs	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.46 First Grade Preparedness	\$0	\$0	\$0	<b>09 AGENCY</b>			
4.49 Safe School Levy	\$65,361	\$65,361	\$0	Unreserved:			
4.50 Pre-Kindergarten	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0	<b>20 INTERNAL SERVICE</b>			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Unreserved:				Reserved:			
4.18 Severance-Ins. Premium	\$300,000	\$300,000	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.22 Unreserved/Undesignated	\$3,803,602	\$3,803,602	\$0	Unreserved:			
4.22 Unreserved/Undesignated	\$3,803,602	\$3,803,602	\$0	4.22 Unreserved/Undesignated	\$0	\$0	\$0
<b>02 FOOD SERVICE</b>				<b>25 OPEB REVOCABLE TRUST</b>			
Total Revenue	\$2,638,780	\$2,638,781	(\$1)	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$2,354,068	\$2,354,068	\$0	Total Expenditures	\$0	\$0	\$0
Reserved:				Reserved:			
4.19 Encumbrances	\$0	\$0	\$0	4.19 Encumbrances	\$0	\$0	\$0
4.52 OPEB Liability Not in Trust	\$0	\$0	\$0	Unreserved:			
Unreserved:				4.22 Unreserved/Undesignated	\$0	\$0	\$0
4.18 Severance - Ins. Premium	\$0	\$0	\$0	<b>45 OPEB IRREVOCABLE TRUST</b>			
4.22 Unreserved/Undesignated	\$368,594	\$368,594	\$0	Total Revenue	\$4,468,582	\$4,468,582	\$0
<b>04 COMMUNITY SERVICE</b>				Total Expenditures	\$229	\$229	\$0
Total Revenue	\$1,747,949	\$1,747,949	\$0	Reserved:			
Total Expenditures	\$1,623,652	\$1,623,652	\$0	4.19 Encumbrances	\$0	\$0	\$0
Reserved:				Unreserved:			
4.19 Encumbrances	\$0	\$0	\$0	4.22 Unreserved/Undesignated	\$ 4,468,353	\$4,468,353	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	<b>47 OPEB DEBT SERVICE</b>			
4.31 Community Education	\$21,133	\$21,133	\$0	Total Revenue	\$4,354	\$4,355	(\$1)
4.32 E.C.F.E.	\$160,975	\$160,975	\$0	Total Expenditures	\$141,532	\$141,532	\$0
4.44 School Readiness	\$41,463	\$41,463	\$0	Reserved:			
4.47 Adult Basic Education	\$11,282	\$11,282	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Unreserved:			
Unreserved:				4.22 Unreserved/Undesignated	\$523,335	\$523,335	\$0
4.18 Severance-Ins. Premium	\$0	\$0	\$0	<b>UNAUDITED DATA REPORTING ELEMENTS</b>			
4.22 Unreserved/Undesignated	\$16,854	\$16,854	\$0	<b>FY10 OPERATING CAPITAL TRANSFER</b>			
				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, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U. S. Department of Agriculture</u></b>		
Pass-Through Minnesota Department of Education:		
Clustered Programs:		
National School Breakfast Program	10.553	\$ 230,396
National School Lunch Program	10.555	\$ 971,978
National School Lunch Program - Commodity Distribution	10.555	<u>133,706</u>
Summer Food Program	10.559	63,362
Total Clustered Programs		<u>1,399,442</u>
Child Food Program	10.558	10,108
ARRA National School Lunch Equipment Assistance	10.579	26,281
<b><u>Total Department of Agriculture</u></b>		<u>1,435,831</u>
<b><u>U.S. Department of Interior</u></b>		
Pass Through Other Entities:		
Johnson O'Malley - Red Lake Band of Chippewa Indians	15.130	22,478
Johnson O'Malley - Leech Lake Band of Chippewa Indians	15.130	3,979
<b><u>Total Received from Department of Interior</u></b>		<u>26,457</u>
<b><u>U. S. Department of Education</u></b>		
Direct Programs:		
Indian Elementary and Secondary School Assistance	84.060	<u>207,462</u>
Pass-Through Minnesota Department of Education:		
Adult Basic Education	84.002	<u>10,459</u>
Clustered Programs:		
Title I Part A	84.010	1,141,032
Title I Part D	84.010	<u>184,601</u>
ARRA - Title I Part A	84.389	587,555
ARRA - Title I Part D	84.389	<u>11,582</u>
Total Clustered Programs		<u>1,924,770</u>
IDEA Special Education Part B Section 611	84.027	1,007,393
Continuous Improvement Monitoring Process (CMP)	84.027	<u>8,200</u>
IDEA Special Education Part B Section 619	84.173	38,851
Special Education - Part B Section 619 Preschool Incentive	84.173	1,680
Special Education - Part B Section 619 Preschool Supplemental	84.173	<u>2,800</u>
ARRA - Special Education - Part B Section 611	84.391	577,253
ARRA - Special Education - Part B Section 619 Preschool	84.392	48,257
Total Clustered Programs		<u>1,684,434</u>
Special Education - Part C IEIC, Ages 0-2	84.181	39,443
ARRA - Special Education - Part C	84.393	<u>29,319</u>
Total Clustered Programs		<u>68,762</u>
Title IV Safe and Drug Free Schools & Communities	84.186	32,395
Title IV Part B 21st Century Community Learning Centers	84.287	202,179
Title X Part C Subtitle B - Homeless	84.196	28,500
ARRA - McKinney Vento: Education for Homeless Children & Youth	84.387	4,844
Enhancing Education through Technology Program	84.318	13,173
Title II Part A	84.367	374,978
ARRA Stabilization Title VIII - Impact Aid	84.394	2,896,138
Pass Through Other Entities:		
IDEA Part B - Discretionary Low Incidence	84.027	35,725
Carl Perkins Career and Technical Education - North Country Vocational Coop	84.243	41,768
<b><u>Total Department of Education</u></b>		<u>7,525,587</u>
<b><u>Total Federal Assistance Expended</u></b>		<u>\$ 8,987,875</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2010**

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 31 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**Note 2. Child Nutrition Cluster**

Cash receipts from the U. S. Department of Agriculture through the Minnesota Department of Education are included in revenues from federal sources. It is assumed that federal funds are expended first.

**Note 3. Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**Note 4. Matching Requirements**

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**TAX LEVIES, TAX RATES AND STUDENT CENSUS**  
**JUNE 30, 2010**  
**(Unaudited)**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Property Tax Levies</b>										
General Referendum	\$ 2,737,078	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688	\$ 1,784,861	\$ 1,414,701	\$ 1,234,142	\$ -	\$ -	\$ 630,753
General Maintenance	1,973,806	1,727,879	1,760,443	1,363,836	931,211	184,055	-	676,177	411,058	5,482,797
Community Service	351,091	359,408	311,974	351,150	318,539	294,045	277,550	256,749	246,993	178,922
Debt Redemption	3,944,315	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
<b>Total Property Tax Levies</b>	<b>\$ 9,006,290</b>	<b>\$ 8,838,514</b>	<b>\$ 8,618,213</b>	<b>\$ 8,194,215</b>	<b>\$ 7,611,394</b>	<b>\$ 6,985,535</b>	<b>\$ 6,353,235</b>	<b>\$ 4,942,743</b>	<b>\$ 4,420,792</b>	<b>\$ 10,601,116</b>
<b>Taxable Net Tax Capacity</b>										
Beltrami County	\$ 26,368,601	\$ 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
Hubbard County	3,460,714	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
<b>Total Net Tax Capacity</b>	<b>\$ 29,829,315</b>	<b>\$ 28,937,846</b>	<b>\$ 27,154,649</b>	<b>\$ 24,555,932</b>	<b>\$ 20,860,453</b>	<b>\$ 18,423,899</b>	<b>\$ 15,978,689</b>	<b>\$ 14,145,970</b>	<b>\$ 12,797,568</b>	<b>\$ 15,292,437</b>
<b>Property Tax Rate</b>	<b>20.993%</b>	<b>21.499%</b>	<b>23.045%</b>	<b>24.990%</b>	<b>27.931%</b>	<b>30.237%</b>	<b>32.037%</b>	<b>34.941%</b>	<b>34.544%</b>	<b>65.198%</b>
<b>Referendum Market Values</b>										
Beltrami County	\$ 1,929,380,345	\$ 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
Hubbard County	208,294,180	224,374,220	213,065,100	182,281,101	161,103,300	137,755,102	117,601,726			108,737,500
<b>Total Referendum Market Values</b>	<b>\$ 2,137,674,525</b>	<b>\$ 2,150,025,141</b>	<b>\$ 2,051,618,755</b>	<b>\$ 1,885,019,696</b>	<b>\$ 1,616,721,595</b>	<b>\$ 1,422,381,589</b>	<b>\$ 1,231,064,135</b>			<b>\$ 1,020,636,068</b>
<b>Referendum Rate</b>	<b>0.12804%</b>	<b>0.12137%</b>	<b>0.11538%</b>	<b>0.10916%</b>	<b>0.11040%</b>	<b>0.09946%</b>	<b>0.10025%</b>			<b>0.06180%</b>
<b>Students Served (Weighted ADM's)</b>										
Residents	6,030.05	5,859.57	5,911.40	5,916.96	5,914.56	5,939.23	5,968.87	6,124.68	6,202.19	6,282.16
<b>Nonresidents in District</b>										
Tuition	80.36	82.14	82.41	122.70	127.12	150.48	141.77	158.38	159.83	136.75
Enrollment Options	309.93	280.02	236.68	245.72	222.65	213.44	227.56	239.24	228.92	228.51
Ineligible	1.53	0.65	0.60	0.62	3.53	2.22	2.21	2.33	9.41	7.06
Shared Aid	8.47	9.27	14.39	12.51	12.72	14.46	17.43	13.86	15.77	15.14
Shared Time Tuition	0.10	0.11	0.21	-	-	-	0.16	0.42	0.90	1.90
Adults	-	6.54	-	-	-	-	-	5.36	7.49	5.20
<b>Residents Outside District</b>										
Tuition	(20.18)	(27.21)	(24.59)	(35.38)	(33.19)	(27.15)	(26.65)	(20.07)	(20.64)	(25.11)
Charter	(430.80)	(442.59)	(428.10)	(433.15)	(398.82)	(414.37)	(406.55)	(172.46)	(168.58)	(152.18)
Enrollment Options	(382.28)	(363.27)	(341.11)	(369.75)	(397.26)	(402.28)	(396.31)	(407.63)	(409.49)	(377.19)
<b>Total Students Served</b>	<b>5,597.18</b>	<b>5,405.23</b>	<b>5,451.89</b>	<b>5,460.23</b>	<b>5,451.31</b>	<b>5,476.03</b>	<b>5,528.49</b>	<b>5,944.11</b>	<b>6,025.80</b>	<b>6,122.24</b>
<b>Adjusted Weighted ADM's</b>	<b>5,526.90</b>	<b>5,333.73</b>	<b>5,378.87</b>	<b>5,359.78</b>	<b>5,341.13</b>	<b>5,336.02</b>	<b>5,393.57</b>	<b>5,783.83</b>	<b>5,853.04</b>	<b>5,981.30</b>
<b>Resident ADM's</b>	<b>5,238.58</b>	<b>5,101.45</b>	<b>5,104.55</b>	<b>5,108.15</b>	<b>5,101.53</b>	<b>5,121.77</b>	<b>5,158.95</b>	<b>5,295.49</b>	<b>5,355.90</b>	<b>5,440.87</b>



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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, 2010, which collectively comprise Independent School District No. 31, Bemidji, Minnesota’s basic financial statements and have issued our report thereon dated December 22, 2010.

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, 2010  
 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, 2010, which collectively comprise Independent School District No. 31, Bemidji, Minnesota's basic financial statements and have issued our report thereon dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Independent School District No. 31  
Bemidji, Minnesota

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, 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, 2010  
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, 2010. 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.

In our opinion, Independent School District No. 31, Bemidji, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

**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.

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

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

The report is intended solely for the information and use of the management, the School Board, others within the entity, 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, 2010  
Bemidji, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 31**  
**BEMIDJI, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2010**

**I. SUMMARY OF AUDITORS' RESULTS**

- 1.) An unqualified report was issued.
- 2.) No significant deficiency in internal control over financial reporting was reported in the audit of the financial statements, nor was a significant deficiency identified to be a material weakness.
- 3.) The audit did not disclose any noncompliance which was material to the financial statements.
- 4.) No matters involving internal control over compliance relating to the audit of the major federal award programs were 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*.
- 5.) A unqualified report on compliance for major federal award program was issued.
- 6.) No findings were disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133.

7.) Major programs:

    Clustered Programs:

Special Education, Part B	CFDA No. 84.027
Special Education, Preschool	CFDA No. 84.173
ARRA – Special Education, Part B	CFDA No. 84.391
ARRA – Special Education, Preschool	CFDA No. 84.392
Indian Elementary and Secondary School Assistance	CFDA No. 84.060
ARRA – Stabilization Title VIII – Impact Aid	CFDA No. 84.394

    Clustered Programs:

Title I, Part A	CFDA No. 84.010
ARRA – Title I, Part A	CFDA No. 84.389

- 8.) A \$300,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 did not qualify 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, 2010**

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

**Internal Control**

**Items Arising This Year**

**None**

**Previously Reported Item Resolved During the Year**

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

**Original 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 now has 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.