

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2011

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BEMIDJI, MINNESOTA
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
YEAR ENDED JUNE 30, 2011

OFFICIAL DIRECTORY

(Unaudited)

| | July 1, 2010 to <u>December 31, 2010</u> | January 1, 2011 to <u>June 30, 2011</u> |
|---|---|--|
| <u>School Board Members and Officers</u> | | |
| Chairperson | Melvin (Gene) Dillon | Richard (Bill) Faver |
| Vice-Chairperson | Richard (Bill) Faver | Ann Long Voelkner |
| Clerk | Ann Long Voelkner | John Pugleasa |
| Treasurer | Steven H. Johnson | Carol L. Johnson |
| Director | John Pugleasa | Melvin (Gene) Dillon |
| Director | Carol L. Johnson | Melissa Bahr |
| <u>Administration</u> | | |
| Superintendent | Dr. James Hess | Dr. James Hess |
| Business Manager | 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, 2011, 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Independent School District No. 31 – Bemidji, Minnesota adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 2011, 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 47 through 49 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 50 through 55 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 56 through 57 is presented for purposes of additional analysis as required by U.S. Office of Management and Budgeted Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Independent School District No. 31, Bemidji, Minnesota. 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 58 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 27, 2011
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011. 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, 2011 include the following:

- Net assets increased by 9.8% from the prior year.
- District-wide revenues were \$61,337,161 and district-wide expenses were \$57,187,495.
- Enrollment increased 69.48 students from 5,526.90 to 5,596.38 weighted ADM students.
- The general fund balance increased by \$3,377,378, representing 6.8% of general fund expenditures.
- The District retired \$3,210,000 in general obligation bond principal.

OVERVIEW OF THE FINANCIAL STATEMENTS

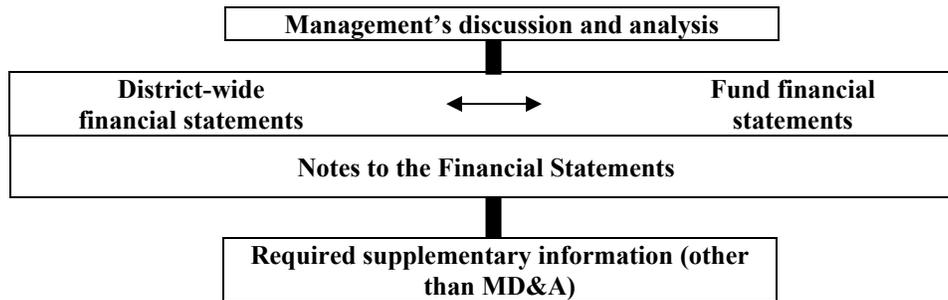
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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



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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011

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 \$46,509,860 at June 30, 2011 (see the following table). At June 30, 2010 the net assets were \$42,360,194, with an increase of \$4,149,666 from operating activities for the year ended June 30, 2011.

| | 2011 | 2010 | Net Changes | |
|---|----------------------|----------------------|---------------------|----------------|
| | | | Amount | Percent |
| Current and other assets | \$ 30,989,137 | \$ 36,178,682 | \$ (5,189,545) | -14.34% |
| Capital assets, net of depreciation | 64,478,889 | 66,128,709 | (1,649,820) | -2.49% |
| Total assets | 95,468,026 | 102,307,391 | (6,839,365) | -6.69% |
| Current payables | 16,322,990 | 24,034,354 | (7,711,364) | -32.08% |
| Long-term liabilities: | | | | |
| Due within one year | 3,527,110 | 3,502,195 | 24,915 | 0.71% |
| Due after one year | 29,108,066 | 32,410,648 | (3,302,582) | -10.19% |
| Total liabilities | 48,958,166 | 59,947,197 | (10,989,031) | -18.33% |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 37,858,427 | 32,601,109 | 5,257,318 | 16.13% |
| Restricted | 4,734,001 | 4,793,679 | (59,678) | -1.24% |
| Unrestricted | 3,917,432 | 4,965,406 | (1,047,974) | -21.11% |
| Total net assets | \$ 46,509,860 | \$ 42,360,194 | \$ 4,149,666 | 9.80% |

Net assets increased by 9.80% for the year ended June 30, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011 and 2010. A summary of the District's revenues and expenses, along with the amount of change and percentages for each category are as follows:

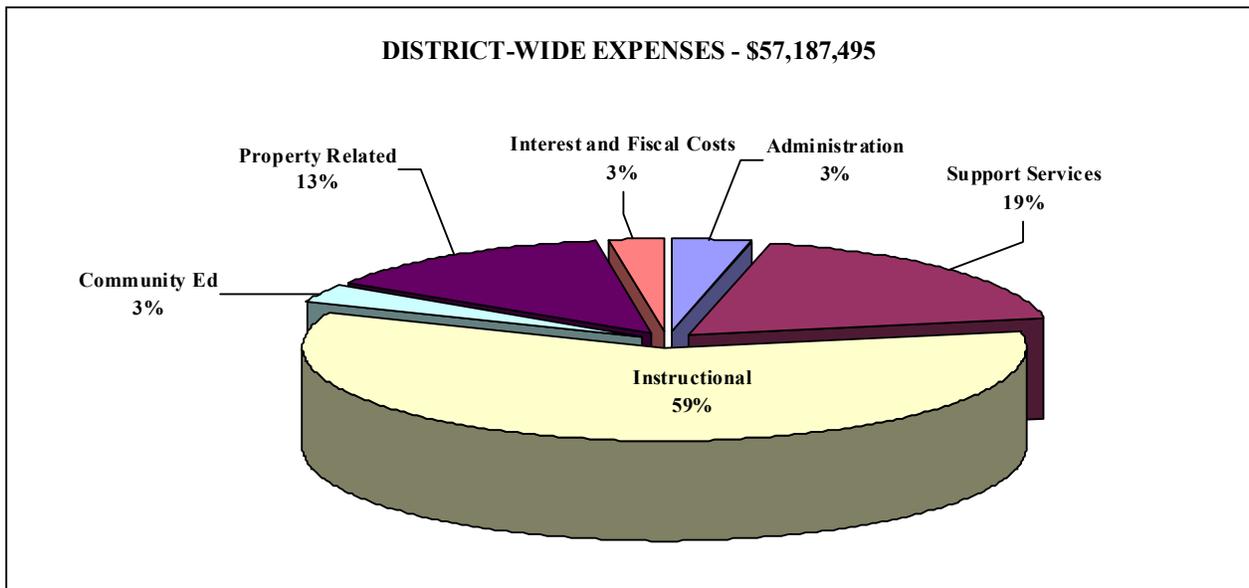
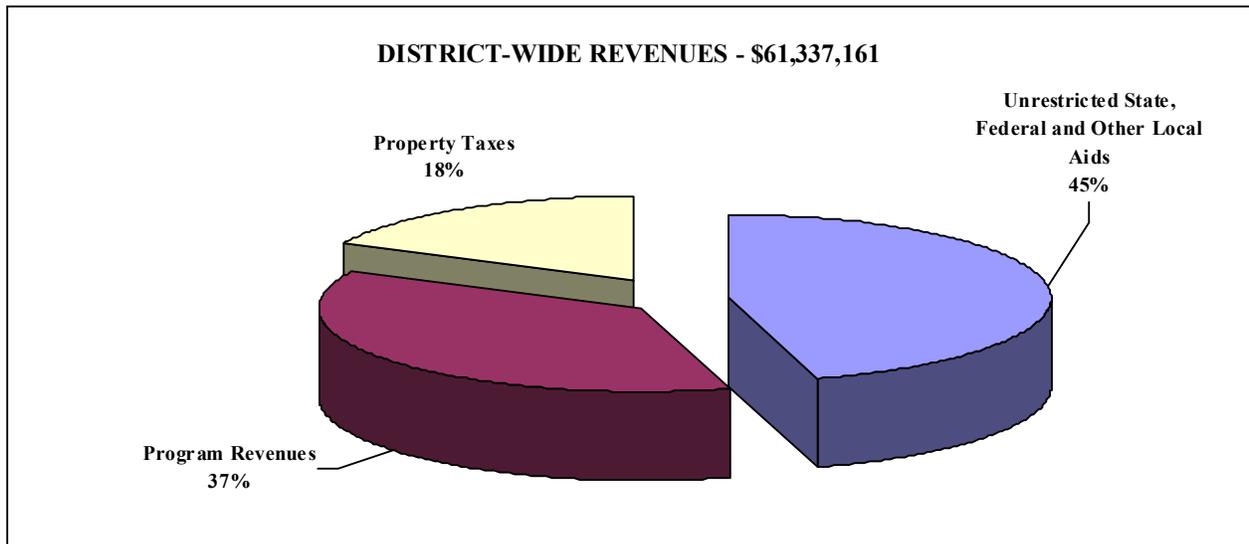
| | 2011 | | 2010 | | Net Change | |
|--|---------------------|----------------|---------------------|----------------|---------------------|--------------|
| | Amounts | Percent | Amounts | Percent | Amount | Percent |
| <u>Revenues:</u> | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 3,350,113 | 5.46% | \$ 3,125,211 | 5.17% | \$ 224,902 | 7.20% |
| Operating Grants and Contributions | 19,215,165 | 31.33% | 22,512,740 | 37.25% | (3,297,575) | -14.65% |
| Total Program Revenues | 22,565,278 | 36.79% | 25,637,951 | 42.42% | (3,072,673) | -11.98% |
| General Revenues: | | | | | | |
| Property Taxes | 10,912,952 | 17.79% | 8,609,588 | 14.25% | 2,303,364 | 26.75% |
| Unrestricted Aids and Payments from State and Federal Sources | 27,659,518 | 45.09% | 25,809,209 | 42.70% | 1,850,309 | 7.17% |
| Other Sources | 199,413 | 0.33% | 380,073 | 0.63% | (180,660) | -47.53% |
| Total General Revenues | 38,771,883 | 63.21% | 34,798,870 | 57.58% | 3,973,013 | 11.42% |
| Total Revenues | 61,337,161 | 100.00% | 60,436,821 | 100.00% | 900,340 | 1.49% |
| <u>Expenses:</u> | | | | | | |
| Instructional: | | | | | | |
| Regular Instruction | 22,425,816 | 39.21% | 21,836,327 | 39.10% | 589,489 | 2.70% |
| Vocational Instruction | 413,425 | 0.72% | 386,572 | 0.69% | 26,853 | 6.95% |
| Exceptional Instruction | 10,863,585 | 19.00% | 10,725,372 | 19.20% | 138,213 | 1.29% |
| Total Instructional | 33,702,826 | 58.93% | 32,948,271 | 58.99% | 754,555 | 2.29% |
| Support Services: | | | | | | |
| District Support Services | 1,151,523 | 2.01% | 1,132,144 | 2.03% | 19,379 | 1.71% |
| Instructional Support Services | 1,606,898 | 2.81% | 1,736,910 | 3.11% | (130,012) | -7.49% |
| Pupil Support Services | 7,888,392 | 13.79% | 7,963,189 | 14.26% | (74,797) | -0.94% |
| Total Support Services | 10,646,813 | 18.62% | 10,832,243 | 19.40% | (185,430) | -1.71% |
| Administration | 1,989,295 | 3.48% | 1,865,600 | 3.34% | 123,695 | 6.63% |
| Community Education and Services | 1,780,902 | 3.11% | 1,613,222 | 2.89% | 167,680 | 10.39% |
| Site, Buildings and Equipment | 7,609,343 | 13.31% | 6,940,185 | 12.43% | 669,158 | 9.64% |
| Fiscal and Other Fixed Costs | 91,382 | 0.16% | 183,820 | 0.33% | (92,438) | -50.29% |
| Interest on Long-Term Debt | 1,366,934 | 2.39% | 1,464,315 | 2.62% | (97,381) | -6.65% |
| Total Expenses | 57,187,495 | 100.00% | 55,847,656 | 100.00% | 1,339,839 | 2.40% |
| Changes in Net Assets | \$ 4,149,666 | | \$ 4,589,165 | | \$ (439,499) | |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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

For the year ended June 30, 2011, the District's total revenues were \$61,337,161 and consisted of program revenues of \$22,565,278, property taxes of \$10,912,952, general aids and payments from state and federal sources of \$27,659,518 and other sources of \$199,413. Expenses totaling \$57,187,495 consisted of regular, vocational and exceptional instruction costs of \$33,702,826; district, instructional and pupil support services of \$10,646,813; site, buildings and equipment related costs of \$7,609,343;; community education and services costs of \$1,780,902, administrative costs of \$1,989,295, interest on long-term debt of \$1,366,934, and other costs of \$91,382.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2011:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011 and 2010 are as follows:

| | <u>Cost of Services - 2011</u> | | <u>Cost of Services - 2010</u> | |
|------------------------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| | <u>Total</u> | <u>Net</u> | <u>Total</u> | <u>Net</u> |
| District and School Administration | \$ 1,989,295 | \$ 1,639,283 | \$ 1,865,600 | \$ 1,507,307 |
| District Support Services | 1,151,523 | 1,151,523 | 1,132,144 | 1,132,144 |
| Regular Instruction | 22,425,816 | 15,361,842 | 21,836,327 | 10,817,378 |
| Vocational Instruction | 413,425 | 413,425 | 386,572 | 344,596 |
| Exceptional Instruction | 10,863,585 | 3,145,726 | 10,725,372 | 3,048,228 |
| Community Education and Services | 1,780,902 | (598,309) | 1,613,222 | (440,011) |
| Instructional Support Services | 1,606,898 | 476,935 | 1,736,910 | 971,900 |
| Pupil Support Services | 7,888,392 | 4,323,886 | 7,963,189 | 4,422,842 |
| Site, Buildings and Equipment | 7,609,343 | 7,249,590 | 6,940,185 | 6,757,186 |
| Fiscal and Other Fixed Costs | 91,382 | 91,382 | 183,820 | 183,820 |
| Interest on Long-Term Debt | 1,366,934 | 1,366,934 | 1,464,315 | 1,464,315 |
| Total Expenses | \$ 57,187,495 | \$ 34,622,217 | \$ 55,847,656 | \$ 30,209,705 |

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 \$11,003,905.

Total fund balances increased in the amount of \$2,669,821 from the end of the prior year. This was due to revenues exceeding expenditures in the general fund by \$3,377,378, which was somewhat offset by expenditures exceeding revenues by a combined \$707,557 in the other funds. The debt redemption fund had a net decrease in fund balance of \$367,916. The food service fund balance increased by \$246,534, while the community service fund, building construction fund, and OPEB debt service fund had fund balance decreases of \$10,151, \$327,811, and \$248,213, respectively.

The most significant change in 2011 was the adoption of Governmental Accounting Standards Board (GASB) Statement No. 54 by the School Board. This adoption changed our fund balance policy in several ways, the most significant of which is to recognize various levels restricting or committing our General Fund Balances.

The authority to set aside or "label" funds usually comes from a state or federal ordinance or a school board resolution. Restricting and committing funds is referred to by GASB as "stabilization agreements" in recognition that these funds are not available to spend in the next year in an unrestricted fashion. In the case of the District we now have five levels of committed or restricted funds.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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

The highest level is for "Restricted Funds". These are funds whose purpose is determined in statute. Examples include Staff Development, Deferred Maintenance, Health and Safety, Operating Capital, Alternative Programs, Gifted and Talented and Safe Schools. Our restricted general fund balance is \$2,882,357 which is an increase of \$406,656 from the prior year. One major reason for this increase is the renovation of the Downtown Education Center. (D.E.C.) This renovation was paid for out of the lease purchase arrangement which caused fewer operating capital dollars to be spent.

The second highest level is "Committed for Specific Purpose", which requires Board action. This fund balance rose from \$0 to \$361,050, representing the MNDOT damage settlement for the Horace May parking lot as well as the purchase agreement on the Enbridge Property.

The "Committed for Separation/Retirement Benefits" fund balance is \$577,793 and represents the next three years of our unfunded liability as calculated in our GASB 16 actuarial analysis. This obligation deals primarily with employee severance agreements contained in negotiated agreements. The total unfunded liability is currently calculated at \$1,540,049 by Hildi Incorporated. This GASB No. 16 actuarial analysis is performed every two years in conjunction with our GASB No. 45 calculations. GASB No. 45 deals mainly with retiree health insurance and has been partially funded through a bond issue that was deposited into a Post-Employment Benefits Irrevocable Trust, the current balance of which is \$4,587,022.

The "Non-spendable" fund balance is \$388,836 and is largely made up of pre-bought inventory in the warehouse.

The "Assigned" fund balance is \$106,750 and represents several projects that have been committed to or largely completed, but not paid, for as of June 30, 2011. Examples include the BMS glass entry way, the Central Elementary School roof and the Solway School roof.

Our fund balance policy requires that we have at least 10% of our General Fund Operating Budget in a combination of Committed, Assigned and Unassigned Fund Balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$5,638,677 represents 11.4% of our 2011 General Fund expenditures of \$49,540,597 and therefore does not trigger the actions described above. The unassigned portion of our general fund balance represents 9.1% of our budget or about 33 days of operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

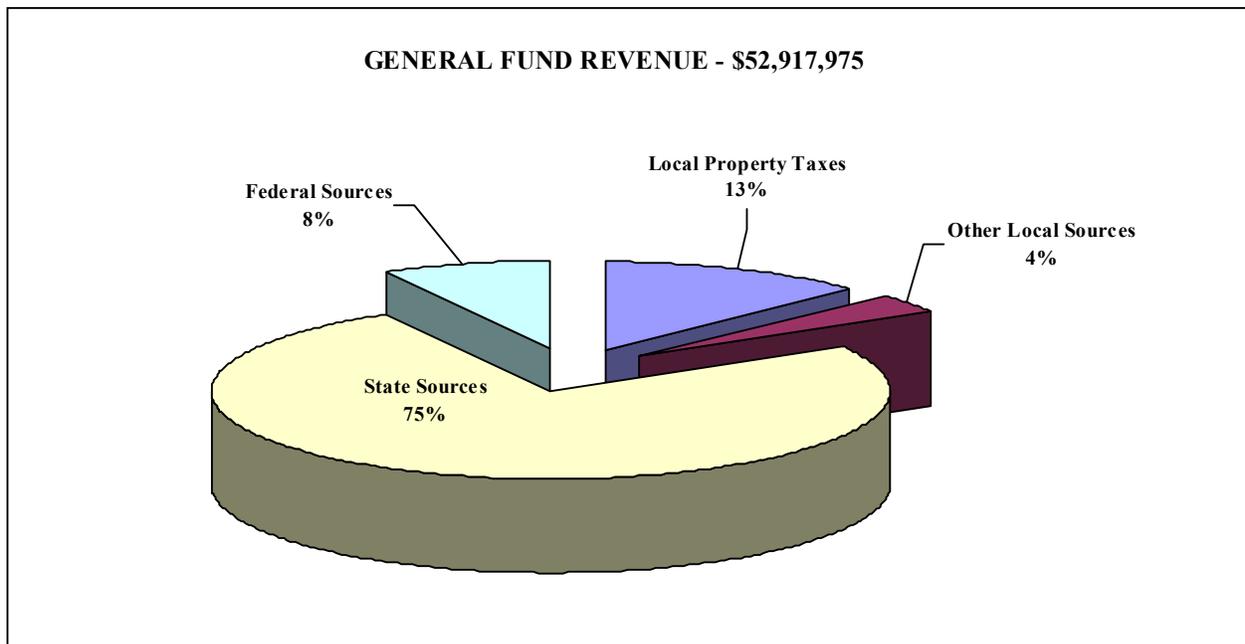
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$61,309,946 while total expenditures were \$58,640,125. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

| | <u>Revenues</u> | <u>Expenditures</u> | <u>Fund Balance Increase (Decrease)</u> |
|----------------------|----------------------|----------------------|---|
| Major Funds: | | | |
| General Fund | \$ 52,917,975 | \$ 49,540,597 | \$ 3,377,378 |
| Debt Redemption Fund | 3,955,316 | 4,323,232 | (367,916) |
| Non-major Funds | 4,436,655 | 4,776,296 | (339,641) |
| Totals | \$ 61,309,946 | \$ 58,640,125 | \$ 2,669,821 |

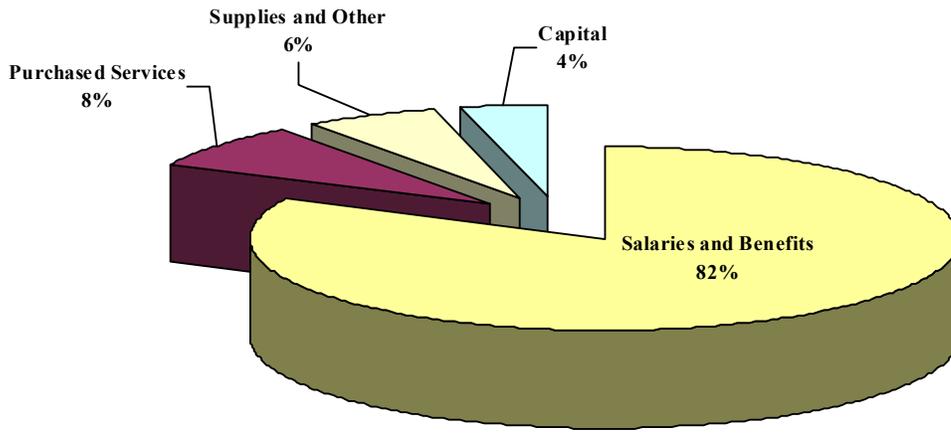
The following graphs are presented for the general fund revenues and expenditures:



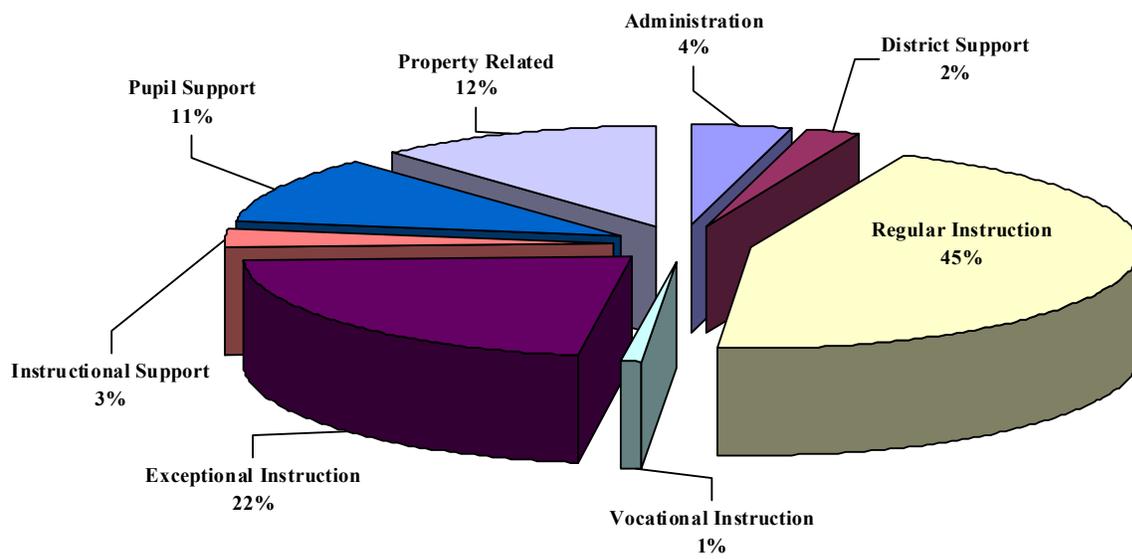
INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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

GENERAL FUND EXPENDITURES BY OBJECT - \$49,540,597



GENERAL FUND EXPENDITURES BY PROGRAM - \$49,540,597



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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

General Fund Budgetary Highlights

During the year ended June 30, 2011, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2010, 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 2010 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.

Although the District's general fund final budget anticipated that revenues would exceed expenditures by \$295,397, the actual results for the year reported revenues exceeded expenditures in the amount of \$3,377,378. Actual expenditures were \$742,397 under the budgeted amount. Revenues exceeded the budgeted amount by \$2,339,584. These variances in the budget were primarily attributed to the following:

- Revenues from local property taxes were \$1,849,870 more than budgeted which was the result of recognizing the property tax shift in the amount of \$1,860,995.
- Medical Assistance revenue was over the budgeted amount by \$495,399. This is due to several factors including \$83,000 from a legal settlement with the Department of Human Services, \$121,000 in "settle up" money from 2009, an additional 10% Federal match which ends this year, transportation formula changes and increased "contact" rates as well as more services to more students resulting in more reimbursable contacts. The settlements from prior years and the one time match indicate this increase is going to be short lived.
- General education aid, the District's single largest funding source, was up by over \$1 million due to two main factors, increased enrollment and increased poverty. Actual enrollment was about 98.18 AMCPU higher than our budget resulting in \$503,074 of additional funds. Another component of general education aid is basic skills (compensatory revenue) and is based on each individual school's free and reduced lunch counts. Our free and reduced counts increased not only in number but also in concentration. This has had a compounding effect on the compensatory revenue formula increasing it by \$469,534.
- We had a damages settlement with the MN Department of Transportation for \$161,050 relating to the Horace May Entrance. This is a one-time event.
- Federal "Edu-Jobs" funds amounted to \$233,911 over the adopted budget amount of \$0. This award was made after the budget had been adopted. This increased amount will reoccur even larger in 2012 and then be done.
- Federal ARRA funds carried over from the prior year amounted to \$727,273. This includes \$508,381 funding for relief from federal special education maintenance of effort requirements that have now been exhausted.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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

Variations in budgeted versus actual expenditures were as follows:

- Regular instruction, vocational instruction, and exceptional instruction were \$548,681, \$258,908, and \$296,642 under budget, respectively.
- Pupil support services and instructional support services were \$319,049 and \$135,084 over budget, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year the District added \$936,181 of capital assets to its inventory records. Additions included \$75,277 of land, \$172,025 of equipment, \$316,304 of transportation vehicles, and \$372,575 to complete the construction project and other building improvements. The District disposed of twelve fully depreciated vehicles, including three buses, with an original cost of \$249,837. The District also disposed of \$175,223 of equipment that was not fully depreciated. The District recorded a loss of \$21,418 on these disposals.

Long-Term Debt

As of June 30, 2011 the District's long-term indebtedness totaled \$32,635,176. This consisted of bonded indebtedness of \$30,515,000, less net unamortized bond discount and premium of \$170,070, a capital lease of \$1,055,462, and severance payable of \$1,234,784. As of June 30, 2011, Other Post-Employment Benefits (OPEB) has a surplus and is included as an asset on the Statement of Net Assets.

During the year the District retired \$3,210,000 of outstanding bond principal and paid \$1,372,390 of interest on long-term outstanding bonds payable. The District also paid \$44,538 of principal on the outstanding capital lease. Severance Payable had a net decrease of \$50,459 and the OPEB surplus had a net decrease of \$202,986.

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 it will increase to \$5,174 in fiscal year 2012. This increase of \$50 per pupil represents less than 1% of general education revenue with the same amount scheduled for FYE 2013. These amounts will not keep pace with inflation which makes an adequate reserve fund balance even more important.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

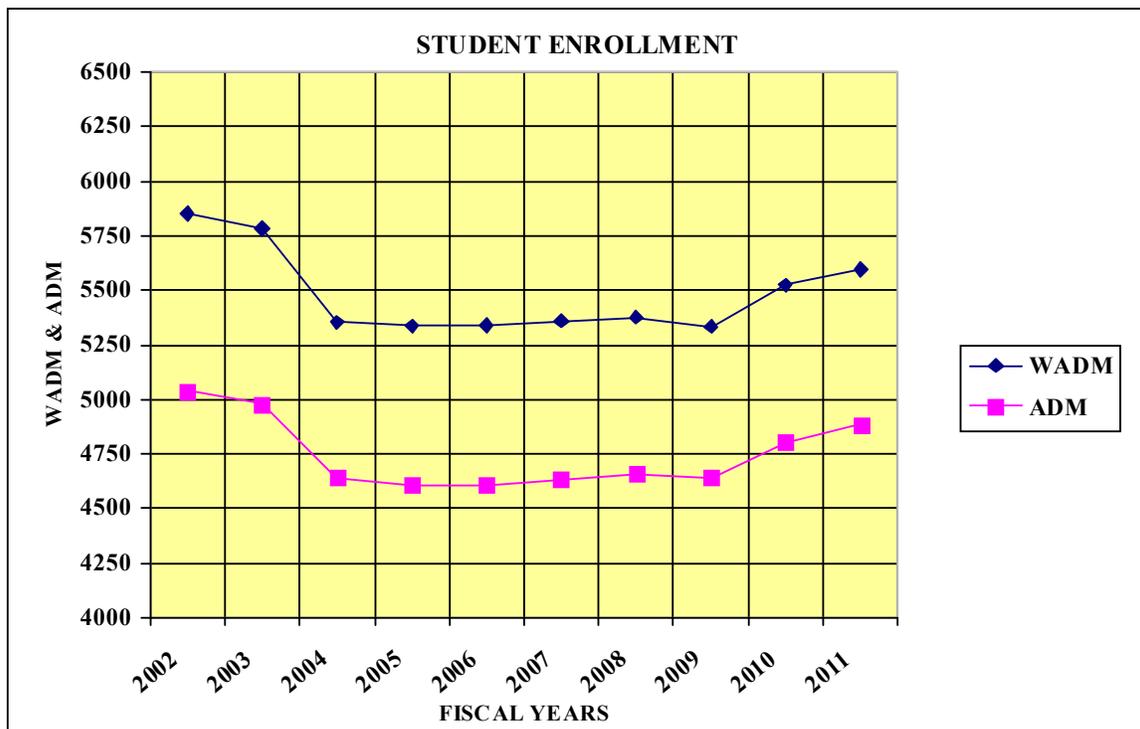
FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

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 82% of the District's general fund expenditures.

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, 2011

ASSETS

| | | |
|---|--------------|--------------|
| Cash and Investments | | \$ 7,477,600 |
| Property Taxes Receivable | | 4,825,969 |
| Due from Other Governmental Units | | 14,228,983 |
| Other Accounts Receivable | | 49,750 |
| Inventories | | 354,061 |
| Prepaid Expenditures | | 55,647 |
| Net Other Post-Employment Benefits | | 3,997,127 |
| Capital Assets: | | |
| Land | \$ 2,706,018 | |
| Depreciable Capital Assets, Net of Depreciation | 61,772,871 | 64,478,889 |
| | | <hr/> |
| Total Assets | | 95,468,026 |

LIABILITIES

| | | |
|--|------------|------------|
| Short-Term Indebtedness - Certificates of Indebtedness | | 3,483,477 |
| Salaries and Wages Payable | | 3,655,294 |
| Accounts Payable | | 490,379 |
| Interest Payable | | 392,865 |
| Due to Other Governmental Units | | 636 |
| Payroll Deductions and Employer Contributions | | 529,938 |
| Accrued Compensated Absences Payable | | 247,798 |
| Deferred Revenue | | 887,770 |
| Property Taxes Levied for Subsequent Years' Expenditures | | 6,634,833 |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 3,527,110 | |
| Portion Due After One Year | 29,108,066 | 32,635,176 |
| | | <hr/> |
| Total Liabilities | | 48,958,166 |

NET ASSETS

| | | |
|---|--|---------------------------|
| Invested in Capital Assets, Net of Related Debt | | 37,858,427 |
| Restricted for: | | |
| State Mandated Reserves | | 3,728,864 |
| Debt Service | | 1,005,137 |
| Unrestricted | | 3,917,432 |
| Total Net Assets | | <hr/> <hr/> \$ 46,509,860 |

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|--------------------------------------|----------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Governmental Activities | | | | |
| District and School Administration | \$ 1,989,295 | \$ - | \$ 350,012 | \$ (1,639,283) |
| District Support Services | 1,151,523 | - | - | (1,151,523) |
| Regular Instruction | 22,425,816 | 670,527 | 6,393,447 | (15,361,842) |
| Vocational Instruction | 413,425 | - | - | (413,425) |
| Exceptional Instruction | 10,863,585 | - | 7,717,859 | (3,145,726) |
| Community Education and Services | 1,780,902 | 1,537,709 | 841,502 | 598,309 |
| Instructional Support Services | 1,606,898 | - | 1,129,963 | (476,935) |
| Pupil Support Services | 7,888,392 | 1,092,319 | 2,472,187 | (4,323,886) |
| Site, Buildings and Equipment | 7,609,343 | 49,558 | 310,195 | (7,249,590) |
| Fiscal and Other Fixed Costs | 91,382 | - | - | (91,382) |
| Interest on Long-Term Debt | 1,366,934 | - | - | (1,366,934) |
| Total Governmental Activities | \$ 57,187,495 | \$ 3,350,113 | \$ 19,215,165 | (34,622,217) |

General Revenues and Special Item:

| | |
|--|-----------------------------|
| Property Taxes: | |
| Levied for General Purposes | 6,790,856 |
| Levied for Community Education and Services | 490,443 |
| Levied for Debt Service | 3,631,653 |
| Aids and Payments from State Sources | 27,659,518 |
| Unrestricted Investment Earnings | 19,034 |
| Other Revenues | 180,379 |
| <u>Total General Revenues</u> | <u>38,771,883</u> |
| <u>Change in Net Assets</u> | 4,149,666 |
| <u>Net Assets - Beginning of Year</u> | <u>42,360,194</u> |
| <u>Net Assets - End of Year</u> | <u>\$ 46,509,860</u> |

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

| | <u>General Fund</u> | <u>Debt Redemption</u> | <u>Other Governmental Funds</u> | <u>Totals</u> |
|---|----------------------|----------------------------|---|----------------------|
| <u>ASSETS</u> | | | | |
| Cash and Investments | \$ 3,077,778 | \$ 2,936,410 | \$ 1,463,412 | \$ 7,477,600 |
| Property Taxes Receivable | 2,294,891 | 2,334,682 | 196,396 | 4,825,969 |
| Due from Other Funds | 401,547 | - | - | 401,547 |
| Due from Other Governmental Units | 13,895,829 | 97,671 | 235,483 | 14,228,983 |
| Other Accounts Receivable | 49,013 | - | 737 | 49,750 |
| Inventories | 333,189 | - | 20,872 | 354,061 |
| Prepaid Expenditures | 55,647 | - | - | 55,647 |
| Total Assets | \$ 20,107,894 | \$ 5,368,763 | \$ 1,916,900 | \$ 27,393,557 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | |
| <u>Liabilities</u> | | | | |
| Salaries Payable | \$ 3,508,601 | \$ - | \$ 146,693 | \$ 3,655,294 |
| Accounts Payable | 481,581 | - | 8,798 | 490,379 |
| Interest Payable | 28,883 | - | - | 28,883 |
| Outstanding Certificates of Indebtness | 3,483,477 | - | - | 3,483,477 |
| Due to Other Funds | - | - | 401,547 | 401,547 |
| Due to Other Governmental Units | 636 | - | - | 636 |
| Payroll Deductions and Employer Contributions | 512,484 | - | 17,454 | 529,938 |
| Deferred Revenue | 873,048 | - | 14,722 | 887,770 |
| Deferred Revenue - Delinquent Taxes | 134,432 | 131,768 | 10,695 | 276,895 |
| Property Taxes Levied for Subsequent Years' Expenditures | 2,174,882 | 4,274,766 | 185,185 | 6,634,833 |
| Total Liabilities | 11,198,024 | 4,406,534 | 785,094 | 16,389,652 |
| <u>Fund Equity</u> | | | | |
| Nonspendable | 388,836 | - | 20,872 | 409,708 |
| Restricted | 2,882,357 | 962,229 | 1,110,934 | 4,955,520 |
| Committed | 938,843 | - | - | 938,843 |
| Assigned | 106,750 | - | - | 106,750 |
| Unassigned | 4,593,084 | - | - | 3,482,150 |
| Total Fund Equity | 8,909,870 | 962,229 | 1,131,806 | 11,003,905 |
| Total Liabilities and Fund Equity | \$ 20,107,894 | \$ 5,368,763 | \$ 1,916,900 | \$ 27,393,557 |

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, 2011

Total Fund Balances - Governmental Funds \$ 11,003,905

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 | \$ 103,133,455 | |
| Accumulated Depreciation | (38,654,566) | |
| Net Depreciated Value of Capital Assets | | 64,478,889 |

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (363,982)

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. 276,895

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities - both current and long-term are reported in the statement of net assets.

| | | |
|---------------------------------------|--------------|--------------|
| General Obligation Bonds Payable | (30,515,000) | |
| Net Unamortized Bond Discount/Premium | 170,070 | |
| Capital Lease Payable | (1,055,462) | |
| Compensated Absences Payable | (247,798) | |
| Other Post-Employment Benefits (OPEB) | 3,997,127 | |
| Severance Payable | (1,234,784) | (28,885,847) |

Total Net Assets - Governmental Activities \$ 46,509,860

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

| | <u>General Fund</u> | <u>Debt Redemption</u> | <u>Other Governmental Funds</u> | <u>Totals</u> |
|--|---------------------|----------------------------|---|----------------------|
| <u>Revenues</u> | | | | |
| Local Property Taxes | \$ 6,768,758 | \$ 3,627,344 | \$ 489,635 | \$ 10,885,737 |
| Other Local and County Revenues | 1,893,528 | - | 644,109 | 2,537,637 |
| Revenues from State Sources | 39,963,252 | 325,570 | 474,098 | 40,762,920 |
| Revenues from Federal Sources | 4,228,149 | - | 1,724,748 | 5,952,897 |
| Sales and Other Conversions of Assets | 60,205 | - | 1,091,516 | 1,151,721 |
| Investment Earnings | 4,083 | 2,402 | 12,549 | 19,034 |
| Total Revenues | 52,917,975 | 3,955,316 | 4,436,655 | 61,309,946 |
| <u>Expenditures</u> | | | | |
| District and School Administration | 1,964,561 | - | - | 1,964,561 |
| District Support Services | 1,149,209 | - | - | 1,149,209 |
| Regular Instruction | 22,303,545 | - | - | 22,303,545 |
| Vocational Instruction | 390,685 | - | - | 390,685 |
| Exceptional Instruction | 10,785,075 | - | - | 10,785,075 |
| Community Education and Services | - | - | 1,783,903 | 1,783,903 |
| Instructional Support Services | 1,593,217 | - | - | 1,593,217 |
| Pupil Support Services | 5,284,757 | - | 2,404,548 | 7,689,305 |
| Site, Buildings, and Equipment | 5,978,166 | - | 327,830 | 6,305,996 |
| Fiscal and Other Fixed Costs | 91,382 | - | - | 91,382 |
| Debt Service: | | | | |
| Principal Retirement | - | 3,210,000 | - | 3,210,000 |
| Interest and Fiscal Fees | - | 1,113,232 | 260,015 | 1,373,247 |
| Total Expenditures | 49,540,597 | 4,323,232 | 4,776,296 | 58,640,125 |
| <u>Excess of Revenues Over (Under) Expenditures</u> | 3,377,378 | (367,916) | (339,641) | 2,669,821 |
| <u>Fund Balances, Beginning of Year</u> | 5,532,492 | 1,330,145 | 1,471,447 | 8,334,084 |
| <u>Fund Balances, End of Year</u> | \$ 8,909,870 | \$ 962,229 | \$ 1,131,806 | \$ 11,003,905 |

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, 2011

| | | |
|--|--------------------|-------------------------|
| Net Change in Fund Balances - Total Governmental Funds | | \$ 2,669,821 |
| | | |
| 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 | \$ 936,180 | |
| Loss on Equipment Disposal | (21,418) | |
| Depreciation Expense | <u>(2,564,582)</u> | |
| Excess Depreciation Expense and Loss on Disposal Over Capital Outlay | | (1,649,820) |
| | | |
| Deferred delinquent property taxes are not available to pay current period expenditures and, therefore, are deferred in the funds. | | |
| Balances at June 30, 2011 | 276,895 | |
| Balances at June 30, 2010 | <u>(249,680)</u> | 27,215 |
| | | |
| 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, 2011 | (363,982) | |
| Accrued Interest at June 30, 2010 | <u>397,625</u> | 33,643 |
| | | |
| Compensated absences consisting of vacation pay is reported in the statement of activities but does not require the use of the current financial resources and therefore, is not reported as an expenditure in the governmental funds. | | |
| Compensated Absences at June 30, 2011 | (247,798) | |
| Compensated Absences at June 30, 2010 | <u>241,924</u> | (5,874) |
| | | |
| 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 | 3,210,000 | |
| Capital Lease Payments | 44,538 | |
| Net Amortization of Bond Premium/Discount | (27,330) | |
| Net Increase in Other Post-Employment Benefits (OPEB) | (202,986) | |
| Net Decrease in Severance Payable | <u>50,459</u> | <u>3,074,681</u> |
| Change in Net Assets of Government Activities | | <u>\$ 4,149,666</u> |

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
JUNE 30, 2011

| | <u>OPEB Irrevocable Trust Fund</u> | <u>Combined Agency Funds</u> |
|---------------------------------|---|---|
| <u>ASSETS</u> | | |
| Cash and Investments | \$ 4,562,466 | \$ 447,649 |
| Accrued Interest receivable | 24,556 | - |
| | <hr/> | <hr/> |
| <u>Total Assets</u> | <u>\$ 4,587,022</u> | <u>\$ 447,649</u> |
| <u>LIABILITIES</u> | | |
| Accounts Payable | - | \$ 106,636 |
| Due to Organizations | - | 341,013 |
| | <hr/> | <hr/> |
| <u>Total Liabilities</u> | <u>-</u> | <u>\$ 447,649</u> |
| <u>NET ASSETS</u> | | |
| Net Assets Held in Trust | <u>\$ 4,587,022</u> | |

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, 2011

| | <u>OPEB Irrevocable Trust Fund</u> |
|--|---|
| <u>Additions:</u> | |
| Investment Earnings | \$ 118,899 |
| <u>Deductions:</u> | |
| Administrative Expenses | <u>230</u> |
| <u>Change in Net Assets</u> | 118,669 |
| <u>Net Assets - Beginning of Year</u> | <u>4,468,353</u> |
| <u>Net Assets - End of Year</u> | <u>\$ 4,587,022</u> |

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011. 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, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the district-wide financial statements. There were no inter-fund activities between funds in the current fiscal 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 and fiduciary funds 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 2010 payable 2011 levy has been recognized as revenue during the current year, as discussed in Note 3.

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, 2011

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, 2011

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 Fiduciary 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.

Property Taxes Receivable - represents current and delinquent taxes receivable at June 30, 2011. 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 2004 through 2010 calendar years that remain uncollected.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 market 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 2004 through 2010 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, 2011, 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, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Fund Equity – Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the School’s government funds have been restated to reflect the above classifications.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Our fund balance policy requires that we have at least 10% of our general fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$5,638,677 represents 11.4% of our 2011 general fund expenditures of \$49,540,597; and therefore does not trigger the actions described above. The unassigned portion of our general fund balance represents 9.13% of our budget or about 33 days of operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

As of June 30, 2011, fund balances are composed of the following:

| | General Fund | Debt Service Fund | Nonmajor Governmental Funds | Totals |
|---|---------------------|-------------------------|-----------------------------------|----------------------|
| Nonspendable: | | | | |
| Inventory | \$ 333,189 | \$ - | \$ - | \$ 333,189 |
| Prepaid Expenses | 55,647 | - | 20,872 | 76,519 |
| Restricted: | | | | |
| Staff Development | 80,166 | - | - | 80,166 |
| Deferred Maintenance | 281,682 | - | - | 281,682 |
| Operating Capital | 1,962,663 | - | - | 1,962,663 |
| Gifted and Talented | 166,034 | - | - | 166,034 |
| State Approved Learning Program | 268,902 | - | - | 268,902 |
| Safe Schools - Crime Levy | 122,910 | - | - | 122,910 |
| Food Service | - | - | 594,256 | 594,256 |
| Community Education | - | - | 11,710 | 11,710 |
| Early Childhood and Family Education | - | - | 175,108 | 175,108 |
| School Readiness | - | - | 54,738 | 54,738 |
| OPEB Debt Service | - | - | 275,122 | 275,122 |
| Debt Service | - | 962,229 | - | 962,229 |
| Committed: | | | | |
| Separation/Retirement Benefits | 577,793 | - | - | 577,793 |
| Land Acquisiton/Parking Lot Development | 361,050 | - | - | 361,050 |
| Assigned: | | | | |
| Building Repairs | 106,750 | - | - | 106,750 |
| Unassigned | 4,593,084 | - | - | 4,593,084 |
| Totals | \$ 8,909,870 | \$ 962,229 | \$ 1,131,806 | \$ 11,003,905 |

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, 2011 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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

F. Use of Estimates

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

NOTE 2 – 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 | \$ 1,010,631 | \$ - | \$ - |
| Savings | 141,005 | - | - |
| Student Activity Depository Accounts - Checking and Money Market | - | - | 341,013 |
| Pooled Investments - MSDLAF+ | 5,649,295 | - | - |
| Non-pooled MN Trust Money Market Account | 401,126 | - | - |
| Non-pooled Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund | - | - | 106,636 |
| Pooled Investments with MN Trust and Associated Wealth Management: | | | |
| MNTrust Money Market Account | 275,543 | 389,557 | - |
| Certificates of Deposit | - | 2,084,923 | - |
| Municipal Bonds | - | 2,087,986 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Cash and Investments | <u>\$ 7,477,600</u> | <u>\$ 4,562,466</u> | <u>\$ 447,649</u> |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – Deposit and Investments (Continued)

A. Deposits

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

Custodial Credit Risk - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2011.

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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – Deposit and Investments (Continued)

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

| <u>Investment</u> | <u>Interest Rates</u> | <u>Fair Value</u> |
|---|-----------------------|-------------------|
| MSDLAF+ - Money Market Accounts | | \$ 5,755,931 |
| MN Trust – Money Market Accounts | | 1,066,226 |
| Certificates of Deposit: | | |
| ≤ Three months | .59 - .601 | 499,419 |
| ≤ One year, ≥ Three months | .799 – 2.1 | 744,566 |
| One to two years | .865- 2.55 | 840,938 |
| Municipal Bonds: | | |
| Centerville, Minnesota Bonds | 4.00 | 283,836 |
| Du Page & Will County’s Illinois Bonds | 2.00 | 383,276 |
| ISD No. 2752, Fairmont, Minnesota Bonds | 3.00 | 255,625 |
| Glendale Heights, Illinois Bonds | 3.85 | 573,937 |
| Minnesota Metropolitan Council Bonds | 3.40 | 437,460 |
| ISD No. 704, Proctor, Minnesota Bonds | 2.50 | 153,852 |

The District’s investments in MSDLAF+ and MN Trust are external investment pools and there are no disclosure requirements for custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Credit Risk –State law limits investments in general obligations of any state or local government with taxing powers with a rating of “A” or better by a national bond rating service. The District’ Municipal Bond investments meet this state criteria.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District has total investments of \$4,838,009 in the OPEB irrevocable Trust Fund. With the exception of the ISD No. 704, Proctor, MN bonds, all of the individual municipal bonds exceed 5% of total investments.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – 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 2010 (payable in 2011) was \$29,952,734 with a referendum market value of \$2,138,544,375. The tax capacity rate was 20.880% and the referendum rate was 0.12790%.

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 4 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2011 are as follows:

| | <u>General</u> <u>Fund</u> | <u>Debt</u> <u>Redemption</u> <u>Fund</u> | <u>Other</u> <u>Governmental</u> <u>Funds</u> | <u>Totals</u> |
|------------------------------------|-------------------------------|---|---|----------------------|
| Other Minnesota School Districts | 367,774 | \$ - | \$ - | \$ 367,774 |
| Minnesota Department of Education: | | | | |
| State Aids and Grants | 12,215,231 | 97,671 | 163,163 | 12,476,065 |
| Federal Aids and Grants | 1,287,679 | - | 72,320 | 1,359,999 |
| Hubbard County | 25,145 | - | - | 25,145 |
| Totals | <u>\$ 13,895,829</u> | <u>\$ 97,671</u> | <u>\$ 235,483</u> | <u>\$ 14,228,983</u> |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – Capital Assets

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Sales and Retirements</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|----------------------------------|---------------------------|
| Non-depreciable Capital Assets | | | | |
| Land | \$ 2,630,742 | \$ 75,277 | \$ - | \$ 2,706,019 |
| Construction in Progress | 772,193 | 334,421 | 1,106,614 | - |
| Total Non-depreciable Capital Assets | <u>3,402,935</u> | <u>409,698</u> | <u>1,106,614</u> | <u>2,706,019</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 3,144,794 | - | - | 3,144,794 |
| Buildings | 85,179,017 | 1,144,767 | - | 86,323,784 |
| Equipment | 10,895,589 | 488,329 | 425,060 | 10,958,858 |
| Total Depreciable Capital Assets | <u>99,219,400</u> | <u>1,633,096</u> | <u>425,060</u> | <u>100,427,436</u> |
| Total Capital Assets | <u>102,622,335</u> | <u>2,042,794</u> | <u>1,531,674</u> | <u>103,133,455</u> |
| Accumulated Depreciation: | | | | |
| Land Improvements | 1,628,912 | 134,040 | - | 1,762,952 |
| Buildings | 27,233,530 | 1,683,076 | - | 28,916,606 |
| Equipment | 7,631,184 | 747,466 | 403,642 | 7,975,008 |
| Total Accumulated Depreciation | <u>36,493,626</u> | <u>2,564,582</u> | <u>403,642</u> | <u>38,654,566</u> |
| Capital Assets, Net of Depreciation | <u>\$ 66,128,709</u> | <u>\$ (521,788)</u> | <u>\$ 1,128,032</u> | <u>\$ 64,478,889</u> |

Depreciation expense was charged to the following program services:

| | |
|--------------------------------|---------------------|
| District Support Services | \$ 10,393 |
| Regular Instruction | 20,010 |
| Vocational Instruction | 21,740 |
| Exceptional Instruction | 42,909 |
| Instructional Support Services | 9,117 |
| Pupil Support Services | 513,590 |
| Site, Buildings and Equipment | 1,946,823 |
| Total | <u>\$ 2,564,582</u> |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – Pension Plans

A. Teachers Retirement Association

Plan Description

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

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

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

Tier I:

| <u>Step Rate Formula</u> | <u>Coordinated</u> | <u>Basic</u> |
|--|---------------------------|----------------------|
| 1 st ten years prior to July 1, 2006 | 1.2 percent per year | 2.2 percent per year |
| 1 st ten years on or after July 1, 2006 | 1.4 percent per year | 2.2 percent per year |
| All other years prior to July 1, 2006 | 1.7 percent per year | 2.7 percent per year |
| All other years on or after July 1, 2006 | 1.9 percent per year | 2.7 percent per year |

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, 2011

NOTE 6 – 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. 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, 2010 was approximately \$3.79 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2009 and June 30, 2008 were \$3.76 billion and \$3.65 billion, respectively.

The District's contributions for the years ending June 30, 2011, 2010, and 2009 were \$1,184,892, \$1,151,764, and \$1,179,477 respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – 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 General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF 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 GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated 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, 2011

NOTE 6 – Pension Plans (Continued)

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.0% for Coordinated Plan members in 2010, and 7.25% for Coordinated Plan members in 2011.

The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2011, 2010, and 2009 were \$763,412, \$707,894, and \$680,625, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

NOTE 7 - 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, 2010, there are 587 active participants and 84 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, 2011

NOTE 7 - 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 | \$ 665,620 |
| Interest on Net OPEB Obligation | (178,105) |
| Adjustment to Annual Required Contribution | 242,221 |
| Annual OPEB Cost (Expense) | <u>729,736</u> |
| Contributions Made | <u>(526,750)</u> |
| Increase in Net OPEB Obligation | 202,986 |
| Net OPEB Obligation (Surplus) - Beginning of Year | (4,200,113) |
| Net OPEB Obligation (Surplus) - End of Year | <u><u>\$ (3,997,127)</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 2011:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Surplus) |
|-------------------------|---------------------|---|--|
| 6/30/2009 | \$ 826,660 | 59.9% | \$ 363,733 |
| 6/30/2010 | 677,466 | 740.1% | (4,200,113) |
| 6/30/2011 | 729,736 | 72.2% | (3,997,127) |

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, 2011

NOTE 7 – 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, 2011 was 28 years.

NOTE 8 – Operating Leases

The District has entered into two operating lease agreements as follows:

The District has a lease agreement with Beltrami County for office space at the Beltrami County Community Services Center for building space. For the year ended June 30, 2011, the District paid \$102,366 in lease costs for this building space. The following is a schedule of the remaining minimum required lease payments under the lease agreement:

| <u>Year Ending June 30,</u> | |
|-----------------------------|------------|
| 2012 | \$ 104,544 |
| 2013 | 106,722 |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – Operating Leases (Continued)

The District also has a lease agreement with Sovereign Bank of Melville, New York for three school buses. For the year ended June 30, 2011, the District paid \$28,768 in lease costs for these buses. The following is a schedule of the remaining minimum required lease payments under the lease agreement:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-----------|
| 2012 | \$ 28,768 |
| 2013 | 28,768 |
| 2014 | 71,006 |

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 2011 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 | \$ - |
| Series 2010B | - | 3,465,968 | - | 3,465,968 |
| Unamortized Premium | 24,596 | 30,015 | 37,102 | 17,509 |
| Total Short-Term Debt | <u>\$ 8,889,002</u> | <u>\$ 3,495,983</u> | <u>\$ 8,901,508</u> | <u>\$ 3,483,477</u> |

The District obtained a 2% fixed rate short-term loan through the Minnesota Tax and Aid Anticipation Program on January 27, 2011 for \$3,487,983 (including fees). The loan matures on September 1, 2011.

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 a follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Payments and Subtractions</u> | <u>Ending Balance</u> |
|------------------|------------------------------|------------------|--------------------------------------|---------------------------|
| Wells Fargo Bank | \$ 1,100,000 | \$ - | \$ 44,538 | \$ 1,055,462 |

The Districts capital lease assets are \$1,100,000 with accumulated depreciation of \$1,844.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 – Capital Lease (Continued)

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, 2011 are as follows:

| <u>Fiscal</u> <u>Year Ended</u> | <u>Lease</u> <u>Principal</u> | <u>Lease</u> <u>Interest</u> | <u>Total</u> |
|------------------------------------|----------------------------------|---------------------------------|----------------------------|
| 2012 | \$ 52,073 | \$ 56,406 | \$ 108,479 |
| 2013 | 54,929 | 53,550 | 108,479 |
| 2014 | 57,941 | 50,539 | 108,480 |
| 2015 | 61,117 | 47,362 | 108,479 |
| 2016 | 64,469 | 44,010 | 108,479 |
| 2017-2021 | 379,406 | 162,988 | 542,394 |
| 2022-2026 | 385,527 | 48,388 | 433,915 |
| Totals | <u>\$ 1,055,462</u> | <u>\$ 463,243</u> | <u>\$ 1,518,705</u> |

NOTE 11 - Long-Term Debt

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

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Payments and</u> <u>Retirements</u> | <u>Ending</u> <u>Balance</u> | <u>Current Amounts</u> | |
|--|------------------------------------|-------------------|---|---------------------------------|------------------------|---------------------|
| | | | | | <u>Principal</u> | <u>Interest</u> |
| General Obligation Bonds: | | | | | | |
| 2004 Refunding Bonds | \$ 1,220,000 | \$ - | \$ 595,000 | \$ 625,000 | \$ 625,000 | \$ 20,000 |
| 2005 Refunding Bonds | 27,555,000 | - | 2,615,000 | 24,940,000 | 2,700,000 | 989,962 |
| 2009A Taxable OPEB Bonds | 4,950,000 | - | - | 4,950,000 | - | 259,590 |
| Total General Obligation Bonds | <u>33,725,000</u> | <u>-</u> | <u>3,210,000</u> | <u>30,515,000</u> | <u>3,325,000</u> | <u>1,269,552</u> |
| Unamortized Bond Discounts | (256,349) | - | (31,111) | (225,238) | (28,744) | - |
| Unamortized Bond Premium | 58,949 | - | 3,781 | 55,168 | 3,781 | - |
| Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium | <u>33,527,600</u> | <u>-</u> | <u>3,182,670</u> | <u>30,344,930</u> | <u>3,300,037</u> | <u>1,269,552</u> |
| Capital Lease Payable (See Note 11) | <u>1,100,000</u> | <u>-</u> | <u>44,538</u> | <u>1,055,462</u> | <u>52,073</u> | <u>56,406</u> |
| Separation and Retirement Benefits: | | | | | | |
| Other Post-Employment Benefits (OPEB) | (4,200,113) | 729,736 | 526,750 | (3,997,127) | - | - |
| Severance Payable | 1,285,243 | 112,036 | 162,495 | 1,234,784 | 175,000 | - |
| Total Separation and Retirement Benefits Payable | <u>(2,914,870)</u> | <u>841,772</u> | <u>689,245</u> | <u>(2,762,343)</u> | <u>175,000</u> | <u>-</u> |
| Total Long-Term Debt, Before Reclassification of Other Post-Employment Benefits | <u>\$ 31,712,730</u> | <u>\$ 841,772</u> | <u>\$ 3,916,453</u> | <u>\$ 28,638,049</u> | <u>\$ 3,527,110</u> | <u>\$ 1,325,958</u> |
| Add-back Other Post-Employment Benefits Reported as an Other Asset | | | | <u>3,997,127</u> | | |
| Total Long-Term Debt | | | | <u>\$ 32,635,176</u> | | |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - Long-Term Debt (Continued)

General obligation bonds are comprised of the following individual issues at June 30, 2011:

\$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, 2011 are as follows:

| <u>Fiscal Year Ended</u> | <u>Bond Principal</u> | <u>Bond Interest</u> | <u>Total</u> |
|------------------------------|---------------------------|--------------------------|----------------------|
| 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 | 3,485,000 | 781,653 | 4,266,653 |
| 2017-2021 | 12,205,000 | 1,726,636 | 13,931,636 |
| 2022-2025 | 1,870,000 | 270,312 | 2,140,312 |
| Totals | <u>\$ 30,515,000</u> | <u>\$ 7,177,860</u> | <u>\$ 37,692,860</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, 2011.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2011. 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, 2011

NOTE 12 – Inter-Fund Balances

At June 30, 2011 the General Fund had inter-fund activity with the OPEB Debt Service Fund, in the amount of \$401,547. The activity was to eliminate a negative cash balance in the OPEB Debt Service Fund.

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 collection of any related receivable at June 30, 2011 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 – Subsequent Event

On August 25, 2011 the District issued Aid Anticipation Certificates of Participation in short-term debt in the amount of \$2,947,132. The proceeds were used to pay the outstanding balance of the short-term borrowing at June 30, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|---------------------|---------------------|-----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget -</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| <u>Revenues</u> | | | | |
| Local Property Taxes | \$ 4,646,565 | \$ 4,918,888 | \$ 6,768,758 | \$ 1,849,870 |
| Other Local and County Revenues | 1,140,415 | 1,270,056 | 1,893,528 | 623,472 |
| Revenues from State Sources | 36,797,971 | 40,142,461 | 39,963,252 | (179,209) |
| Revenues from Federal Sources | 7,567,132 | 4,212,796 | 4,228,149 | 15,353 |
| Sales and Other Conversions of Assets | 19,191 | 19,190 | 60,205 | 41,015 |
| Investment Earnings | 30,000 | 15,000 | 4,083 | (10,917) |
| Total Revenues | <u>50,201,274</u> | <u>50,578,391</u> | <u>52,917,975</u> | <u>2,339,584</u> |
| <u>Expenditures</u> | | | | |
| District and School Administration | 1,856,540 | 1,858,027 | 1,964,561 | (106,534) |
| District Support Services | 1,108,514 | 1,166,640 | 1,149,209 | 17,431 |
| Regular Instruction | 22,502,269 | 22,852,226 | 22,303,545 | 548,681 |
| Vocational Instruction | 649,593 | 649,593 | 390,685 | 258,908 |
| Exceptional Instruction | 10,847,926 | 11,081,717 | 10,785,075 | 296,642 |
| Instructional Support Services | 1,505,951 | 1,458,133 | 1,593,217 | (135,084) |
| Pupil Support Services | 4,683,697 | 4,965,708 | 5,284,757 | (319,049) |
| Site, Buildings and Equipment | 6,056,817 | 6,083,118 | 5,978,166 | 104,952 |
| Fiscal and Other Fixed Costs | 167,832 | 167,832 | 91,382 | 76,450 |
| Total Expenditures | <u>49,379,139</u> | <u>50,282,994</u> | <u>49,540,597</u> | <u>742,397</u> |
| <u>Excess of Revenues Over Expenditures</u> | 822,135 | 295,397 | 3,377,378 | 3,081,981 |
| <u>Fund Balances, Beginning of Year</u> | <u>5,532,492</u> | <u>5,532,492</u> | <u>5,532,492</u> | <u>-</u> |
| <u>Fund Balances, End of Year</u> | <u>\$ 6,354,627</u> | <u>\$ 5,827,889</u> | <u>\$ 8,909,870</u> | <u>\$ 3,081,981</u> |

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2011

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|--|--|-------------------------|----------------------------|--|
| 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, 2011

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 – 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 7 - Other Post-Employment Benefits for more information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

| | <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> | |
| <u>ASSETS</u> | | | | | |
| Cash and Investments | \$ 663,727 | \$ 123,016 | \$ - | \$ 676,669 | \$ 1,463,412 |
| Property Taxes Receivable | - | 196,396 | - | - | 196,396 |
| Due from Other Governmental Units | - | 235,483 | - | - | 235,483 |
| Other Accounts Receivable | - | 737 | - | - | 737 |
| Inventory | 20,872 | - | - | - | 20,872 |
| Total Assets | \$ 684,599 | \$ 555,632 | \$ - | \$ 676,669 | \$ 1,916,900 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | |
| <u>Liabilities</u> | | | | | |
| Salaries Payable | \$ 56,774 | \$ 89,919 | \$ - | \$ - | \$ 146,693 |
| Accounts Payable | 638 | 8,160 | - | - | 8,798 |
| Due to Other Funds | - | - | - | 401,547 | 401,547 |
| Payroll Deductions and Employer Contributions | 8,059 | 9,395 | - | - | 17,454 |
| Deferred Revenue | 4,000 | 10,722 | - | - | 14,722 |
| Deferred Revenue - Delinquent Taxes | - | 10,695 | - | - | 10,695 |
| Property Taxes Levied for Subsequent Expenditures | - | 185,185 | - | - | 185,185 |
| Total Liabilities | 69,471 | 314,076 | - | 401,547 | 785,094 |
| <u>Fund Equity</u> | | | | | |
| Nonspendable | 20,872 | - | - | - | 20,872 |
| Restricted: | | | | | |
| Community Education | - | 11,710 | - | - | 11,710 |
| Early Childhood and Family Education | - | 175,108 | - | - | 175,108 |
| School Readiness | - | 54,738 | - | - | 54,738 |
| Food Service | 594,256 | - | - | - | 594,256 |
| OPEB Debt Service | - | - | - | 275,122 | 275,122 |
| Total Fund Equity | 615,128 | 241,556 | - | 275,122 | 1,131,806 |
| Total Liabilities and Fund Equity | \$ 684,599 | \$ 555,632 | \$ - | \$ 676,669 | \$ 1,916,900 |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

| | <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> | |
| <u>Revenues</u> | | | | | |
| Local Property Taxes | \$ - | \$ 489,635 | \$ - | \$ - | \$ 489,635 |
| Other Local and County Revenues | - | 644,109 | - | - | 644,109 |
| Revenues from State Sources | 102,728 | 371,370 | - | - | 474,098 |
| Revenues from Federal Sources | 1,443,268 | 281,480 | - | - | 1,724,748 |
| Sales and Other Conversions of Assets | 1,091,516 | - | - | - | 1,091,516 |
| Investment Earnings | 433 | 295 | 19 | 11,802 | 12,549 |
| Total Revenues | 2,637,945 | 1,786,889 | 19 | 11,802 | 4,436,655 |
| <u>Expenditures</u> | | | | | |
| Community Education and Services | - | 1,783,903 | - | - | 1,783,903 |
| Pupil Support Services | 2,391,411 | 13,137 | - | - | 2,404,548 |
| Site, Buildings, and Equipment | - | - | 327,830 | - | 327,830 |
| Debt Service: | | | | | |
| Interest and Fiscal Fees | - | - | - | 260,015 | 260,015 |
| Total Expenditures | 2,391,411 | 1,797,040 | 327,830 | 260,015 | 4,776,296 |
| <u>Excess of Revenues Over (Under) Expenditures</u> | 246,534 | (10,151) | (327,811) | (248,213) | (339,641) |
| <u>Fund Balances, Beginning of Year</u> | 368,594 | 251,707 | 327,811 | 523,335 | 1,471,447 |
| <u>Fund Balances, End of Year</u> | \$ 615,128 | \$ 241,556 | \$ - | \$ 275,122 | \$ 1,131,806 |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FOOD SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|--------------------------|--------------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Revenues</u> | | | | |
| Revenues from State Sources | \$ 84,840 | \$ 109,290 | \$ 102,728 | \$ (6,562) |
| Revenues from Federal Sources | 1,079,817 | 1,382,747 | 1,443,268 | 60,521 |
| Sales and Other Conversions of Assets | 1,035,250 | 1,112,170 | 1,091,516 | (20,654) |
| Investment Earnings | - | - | 433 | 433 |
| <u>Total Revenues</u> | <u>2,199,907</u> | <u>2,604,207</u> | <u>2,637,945</u> | <u>33,738</u> |
| <u>Expenditures</u> | | | | |
| <u>Pupil Support Services</u> | | | | |
| Salaries and Wages | 656,530 | 726,450 | 695,055 | 31,395 |
| Employee Benefits | 170,322 | 247,041 | 241,289 | 5,752 |
| Purchased Services | 46,182 | 58,721 | 70,880 | (12,159) |
| Supplies and Materials | 1,315,745 | 1,465,038 | 1,381,776 | 83,262 |
| Capital Expenditures | 37,592 | 37,592 | 2,411 | 35,181 |
| Other Expenditures | 158 | 158 | - | 158 |
| <u>Total Expenditures</u> | <u>2,226,529</u> | <u>2,535,000</u> | <u>2,391,411</u> | <u>143,589</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | <u>(26,622)</u> | <u>69,207</u> | <u>246,534</u> | <u>177,327</u> |
| <u>Fund Balances, Beginning of Year</u> | <u>368,594</u> | <u>368,594</u> | <u>368,594</u> | <u>-</u> |
| <u>Fund Balances, End of Year</u> | <u>\$ 341,972</u> | <u>\$ 437,801</u> | <u>\$ 615,128</u> | <u>\$ 177,327</u> |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMMUNITY SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|--------------------------|--------------------------|--------------------------|---|
| | Original | Final | | |
| <u>Revenues</u> | | | | |
| Local Property Taxes | \$ 359,171 | \$ 357,132 | \$ 489,635 | \$ 132,503 |
| Other Local and County Revenues | 527,142 | 527,142 | 644,109 | 116,967 |
| Revenues from State Sources | 571,086 | 573,455 | 371,370 | (202,085) |
| Revenues from Federal Sources | 250,383 | 281,480 | 281,480 | - |
| Investment Earnings | - | - | 295 | 295 |
| <u>Total Revenues</u> | <u>1,707,782</u> | <u>1,739,209</u> | <u>1,786,889</u> | <u>47,680</u> |
| <u>Expenditures</u> | | | | |
| <u>Community Education and Services</u> | | | | |
| Salaries and Wages | 1,072,478 | 1,109,690 | 1,150,566 | (40,876) |
| Employee Benefits | 227,965 | 237,676 | 257,348 | (19,672) |
| Purchased Services | 175,293 | 185,516 | 223,677 | (38,161) |
| Supplies and Materials | 182,480 | 188,640 | 143,308 | 45,332 |
| Capital Expenditures | 6,471 | 6,471 | 2,300 | 4,171 |
| Other Expenditures | 6,000 | 6,500 | 6,704 | (204) |
| Total Community Education and Services | <u>1,670,687</u> | <u>1,734,493</u> | <u>1,783,903</u> | <u>(49,410)</u> |
| <u>Pupil Support Services</u> | | | | |
| Salaries and Wages | 13,762 | 12,456 | 10,483 | 1,973 |
| Employee Benefits | 1,995 | 1,843 | 1,518 | 325 |
| Purchased Services | 19,271 | 19,078 | 1,136 | 17,942 |
| Total Pupil Support Services | <u>35,028</u> | <u>33,377</u> | <u>13,137</u> | <u>20,240</u> |
| <u>Total Expenditures</u> | <u>1,705,715</u> | <u>1,767,870</u> | <u>1,797,040</u> | <u>(29,170)</u> |
| <u>Excess of Revenues Over (Under) Expenditures</u> | <u>2,067</u> | <u>(28,661)</u> | <u>(10,151)</u> | <u>18,510</u> |
| <u>Fund Balances, Beginning of Year</u> | <u>251,707</u> | <u>251,707</u> | <u>251,707</u> | <u>-</u> |
| <u>Fund Balances, End of Year</u> | <u>\$ 253,774</u> | <u>\$ 223,046</u> | <u>\$ 241,556</u> | <u>\$ 18,510</u> |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2011

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| <u>Student Activities</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and Investments | \$ 324,347 | \$ 472,150 | \$ 455,484 | \$ 341,013 |
| <u>Liabilities</u> | | | | |
| Due to Student Organizations | \$ 324,347 | \$ 472,150 | \$ 455,484 | \$ 341,013 |
| <u>BEA Retiree Fringe Benefit Pool</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and Investments | \$ 135,375 | \$ 325,201 | \$ 353,940 | \$ 106,636 |
| <u>Liabilities</u> | | | | |
| Due to Bemidji Education Association | \$ 135,375 | \$ 162,697 | \$ 191,436 | \$ 106,636 |
| <u>Total All Agency Funds</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and Investments | \$ 459,722 | \$ 797,351 | \$ 809,424 | \$ 447,649 |
| <u>Liabilities</u> | | | | |
| Due to Bemidji Education Association | 135,375 | 162,697 | 191,436 | 106,636 |
| Due to Student Organizations | 324,347 | 472,150 | 455,484 | 341,013 |
| <u>Total Liabilities</u> | \$ 459,722 | \$ 634,847 | \$ 646,920 | \$ 447,649 |

FISCAL COMPLIANCE REPORT - 6/30/2011
District: BEMIDJI (0031-01)

| | Audit | UFARS | Audit (-) UFARS | | Audit | UFARS | Audit (-) UFARS |
|-------------------------------------|--------------|--------------|--------------------|-----------------------------------|-------------|-------------|--------------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$52,917,975 | \$52,917,974 | \$1 | Total Revenue | \$19 | \$19 | \$0 |
| Total Expenditures | \$49,540,597 | \$49,540,597 | \$0 | Total Expenditures | \$327,830 | \$327,829 | \$1 |
| Non Spendable: | | | | Non Spendable: | | | |
| 4.60 Non Spendable Fund Balance | \$388,836 | \$388,836 | \$0 | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| Restricted/Reserved: | | | | Restricted/Reserved: | | | |
| 4.03 Staff Development | \$80,166 | \$80,166 | \$0 | 4.07 Capital Projects Levy | \$0 | \$0 | \$0 |
| 4.05 Deferred Maintenance | \$281,682 | \$281,682 | \$0 | 4.09 Alternative Facility Program | \$0 | \$0 | \$0 |
| 4.06 Health and Safety | \$0 | -\$789,154 | \$789,154 | 4.13 Project Funded by COP | \$0 | \$0 | \$0 |
| 4.07 Capital Projects Levy | \$0 | \$0 | \$0 | Restricted: | | | |
| 4.08 Cooperative Revenue | \$0 | \$0 | \$0 | 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 |
| 4.14 Operating Debt | \$0 | \$0 | \$0 | Unassigned: | | | |
| 4.16 Levy Reduction | \$0 | \$0 | \$0 | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| 4.17 Taconite Building Maint | \$0 | \$0 | \$0 | | | | |
| 4.23 Certain Teacher Programs | \$0 | \$0 | \$0 | 07 DEBT SERVICE | | | |
| 4.24 Operating Capital | \$1,962,663 | \$1,962,663 | \$0 | Total Revenue | \$3,955,316 | \$3,955,316 | \$0 |
| 4.26 \$25 Taconite | \$0 | \$0 | \$0 | Total Expenditures | \$4,323,232 | \$4,323,231 | \$1 |
| 4.27 Disabled Accessibility | \$0 | \$0 | \$0 | Non Spendable: | | | |
| 4.28 Learning & Development | \$0 | \$0 | \$0 | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| 4.34 Area Learning Center | \$0 | \$0 | \$0 | Restricted/Reserved: | | | |
| 4.35 Contracted Alt. Programs | \$0 | \$0 | \$0 | 4.25 Bond Refundings | \$0 | \$0 | \$0 |
| 4.36 State Approved Alt. Program | \$268,902 | \$268,902 | \$0 | 4.51 QZAB Payments | \$0 | \$0 | \$0 |
| 4.38 Gifted & Talented | \$166,034 | \$166,034 | \$0 | Restricted: | | | |
| 4.41 Basic Skills Program | \$0 | \$0 | \$0 | 4.64 Restricted Fund Balance | \$962,229 | \$962,229 | \$0 |
| 4.45 Career Tech Programs | \$0 | \$0 | \$0 | Unassigned: | | | |
| 4.49 Safe Schools Levy | \$122,910 | \$122,910 | \$0 | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| 4.50 Pre-Kindergarten | \$0 | \$0 | \$0 | | | | |
| 4.51 QZAB Payments | \$0 | \$0 | \$0 | 08 TRUST | | | |
| 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 |
| Restricted: | | | | 4.22 Net Assets | \$0 | \$0 | \$0 |
| 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 | | | | |
| Committed: | | | | 20 INTERNAL SERVICE | | | |
| 4.18 Committed for Separation | \$577,793 | \$577,793 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 4.61 Committed Fund Balance | \$361,050 | \$361,050 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| Assigned: | | | | 4.22 Net Assets | \$0 | \$0 | \$0 |
| 4.62 Assigned Fund Balance | \$106,750 | \$106,750 | \$0 | | | | |
| Unassigned: | | | | 25 OPEB REVOCABLE TRUST | | | |
| 4.22 Unassigned Fund Balance | \$4,593,084 | \$5,382,238 | -\$789,154 | Total Revenue | \$0 | \$0 | \$0 |
| | | | | Total Expenditures | \$0 | \$0 | \$0 |
| | | | | 4.22 Net Assets | \$0 | \$0 | \$0 |
| 02 FOOD SERVICES | | | | | | | |
| Total Revenue | \$2,637,945 | \$2,637,945 | \$0 | 45 OPEB IRREVOCABLE TRUST | | | |
| Total Expenditures | \$2,391,411 | \$2,391,411 | \$0 | Total Revenue | \$118,899 | \$118,899 | \$0 |
| Non Spendable: | | | | Total Expenditures | \$230 | \$229 | \$1 |
| 4.60 Non Spendable Fund Balance | \$20,872 | \$20,872 | \$0 | 4.22 Net Assets | \$4,587,022 | \$4,587,022 | \$0 |
| Restricted/Reserved: | | | | | | | |
| 4.52 OPEB Liab Not in Trust | \$0 | \$0 | \$0 | 47 OPEB DEBT SERVICE | | | |
| 4.64 Restricted Fund Balance | \$594,256 | \$594,256 | \$0 | Total Revenue | \$11,802 | \$11,802 | \$0 |
| Unassigned: | | | | Total Expenditures | \$260,015 | \$260,015 | \$0 |
| 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 | Non Spendable: | | | |
| | | | | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| 04 COMMUNITY SERVICE | | | | Restricted: | | | |
| Total Revenue | \$1,786,889 | \$1,786,888 | \$1 | 4.25 Bond Refunding | \$0 | \$0 | \$0 |
| Total Expenditures | \$1,797,040 | \$1,797,039 | \$1 | 4.64 Restricted Fund Balance | \$275,122 | \$275,122 | \$0 |
| Non Spendable: | | | | Unassigned: | | | |
| 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| Restricted/Reserved: | | | | | | | |
| 4.26 \$25 Taconite | \$0 | \$0 | \$0 | | | | |
| 4.31 Community Education | \$11,710 | \$11,710 | \$0 | | | | |
| 4.32 E.C.F.E. | \$175,108 | \$175,108 | \$0 | | | | |
| 4.44 School Readiness | \$54,738 | \$54,738 | \$0 | | | | |
| 4.47 Adult Basic Education | \$0 | \$0 | \$0 | | | | |
| 4.52 OPEB Liab Not in Trust | \$0 | \$0 | \$0 | | | | |
| Restricted: | | | | | | | |
| 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 | | | | |
| Unassigned: | | | | | | | |
| 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 | | | | |

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | | <u>Federal Expenditures</u> |
|--|------------------------------------|----------------|---------------------------------|
| <u>U. S. Department of Agriculture</u> | | | |
| Pass-Through Minnesota Department of Education: | | | |
| Clustered Programs: | | | |
| National School Breakfast Program | 10.553 | \$ 254,546 | |
| National School Lunch Program | 10.555 | 1,042,923 | |
| National School Lunch Program - Commodities and Rebates | 10.555 | 97,024 | |
| Summer Food Program | 10.559 | <u>44,366</u> | |
| Total Clustered Programs | | | \$ 1,438,859 |
| Child and Adult Care | 10.558 | | <u>4,410</u> |
| <u>Total Department of Agriculture</u> | | | <u>1,443,269</u> |
| <u>U. S. Department of Education</u> | | | |
| Direct Programs: | | | |
| Impact Aid | 84.041 | | 22,131 |
| Title VII - Indian Education | 84.060A | | 197,797 |
| Pass-Through Minnesota Department of Education: | | | |
| Adult Basic Education | 84.002 | | 3,813 |
| Education Jobs Fund | 84.410 | | 233,911 |
| Title II Part A | 84.367 | | 336,895 |
| Clustered Programs: | | | |
| Title I Part A | 84.010 | 1,211,163 | |
| Title I (N & D) | 84.010 | 137,749 | |
| ARRA - Title I Part A | 84.389 | 103,244 | |
| ARRA - Title I (N & D) | 84.389 | <u>94,184</u> | |
| Total Clustered Programs | | | 1,546,340 |
| Special Education Part B Sec 611 Regular Allocation | 84.027 | 987,034 | |
| Part B- Coordinated Early Intervening Services (CEIS) | 84.027 | 3,945 | |
| CIMP | 84.027 | 8,640 | |
| Special Education - Part B Section 619 Preschool Regular | 84.173 | 34,718 | |
| Part B - Preschool Incentive Personnel Development | 84.173 | 652 | |
| Part B - Preschool Supplemental, IEIC Ages 3-5 | 84.173 | 2,875 | |
| ARRA - Special Education - Part B Sec 611 | 84.391 | <u>600,799</u> | |
| Total Clustered Programs | | | 1,638,663 |
| Special Education - Part C IEIC, Ages 0-2 | 84.181 | 42,538 | |
| ARRA - Special Education - Part C | 84.393 | <u>31,466</u> | |
| Total Clustered Programs | | | 74,004 |
| Title IV Safe and Drug Free Schools & Communities | 84.186 | | 4,855 |
| ARRA - McKinney Vento: Education for Homeless Children & Youth | 84.387 | | 41,469 |
| Title IV Part B 21st Century Community Learning Centers | 84.287 | | <u>277,667</u> |
| <u>Total Department of Education</u> | | | <u>4,377,545</u> |
| <u>Received from Other Pass Through Entities</u> | | | |
| Carl Perkins Career and Technical Education | 84.243 | | 28,568 |
| Carl Perkins Career and Technical Reserve | 84.243 | | 14,312 |
| IDEA Part B - Discretionary Low Incidence | 84.027 | | 28,520 |
| Johnson O'Malley - Red Lake | 15.130 | | 15,460 |
| Johnson O'Malley - LLBO | 15.130 | | <u>3,594</u> |
| <u>Total Received from Other Pass Through Entities</u> | | | <u>90,454</u> |
| <u>Total Federal Assistance Expended</u> | | | <u>\$ 5,911,268</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, 2011

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, 2011
(Unaudited)

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax Levies | | | | | | | | | | |
| General Referendum | \$ 2,735,198 | \$ 2,737,078 | \$ 2,609,461 | \$ 2,364,252 | \$ 2,057,688 | \$ 1,784,861 | \$ 1,414,701 | \$ 1,234,142 | \$ - | \$ - |
| General Maintenance | 1,626,433 | 1,973,806 | 1,727,879 | 1,760,443 | 1,363,836 | 931,211 | 184,055 | - | 676,177 | 411,058 |
| Community Service | 360,331 | 351,091 | 359,408 | 311,974 | 351,150 | 318,539 | 294,045 | 277,550 | 256,749 | 246,993 |
| Debt Redemption | 4,274,766 | 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 |
| Total Property Tax Levies | \$ 8,996,728 | \$ 9,006,290 | \$ 8,838,514 | \$ 8,618,213 | \$ 8,194,215 | \$ 7,611,394 | \$ 6,985,535 | \$ 6,353,235 | \$ 4,942,743 | \$ 4,420,792 |

| | | | | | | | | | | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|----------------------|----------------------|
| Taxable Net Tax Capacity | | | | | | | | | | |
| Beltrami County | \$ 26,682,043 | \$ 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 |
| Hubbard County | 3,270,691 | 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 |
| Total Net Tax Capacity | \$ 29,952,734 | \$ 29,829,315 | \$ 28,937,846 | \$ 27,154,649 | \$ 24,555,932 | \$ 20,860,453 | \$ 18,423,899 | \$ 15,978,689 | \$ 14,145,970 | \$ 12,797,568 |
| Property Tax Rate | 20.880% | 20.993% | 21.499% | 23.045% | 24.990% | 27.931% | 30.237% | 32.037% | 34.941% | 34.544% |
| Referendum Market Values | | | | | | | | | | |
| Beltrami County | \$ 1,939,767,425 | \$ 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 | | |
| Hubbard County | 198,776,950 | 208,294,180 | 224,374,220 | 213,065,100 | 182,281,101 | 161,103,300 | 137,755,102 | 117,601,726 | | |
| Total Referendum Market Values | \$ 2,138,544,375 | \$ 2,137,674,525 | \$ 2,150,025,141 | \$ 2,051,618,755 | \$ 1,885,019,696 | \$ 1,616,721,595 | \$ 1,422,381,589 | \$ 1,231,064,135 | | |
| Referendum Rate | 0.12790% | 0.12804% | 0.12137% | 0.11538% | 0.10916% | 0.11040% | 0.09946% | 0.10025% | | |

| | | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Students Served (Weighted ADM's) | | | | | | | | | | |
| Residents | 6,104.13 | 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 |
| Nonresidents in District | | | | | | | | | | |
| Tuition | 64.80 | 80.36 | 82.14 | 82.41 | 122.70 | 127.12 | 150.48 | 141.77 | 158.38 | 159.83 |
| Enrollment Options | 347.14 | 309.93 | 280.02 | 236.68 | 245.72 | 222.65 | 213.44 | 227.56 | 239.24 | 228.92 |
| Ineligible | 2.40 | 1.53 | 0.65 | 0.60 | 0.62 | 3.53 | 2.22 | 2.21 | 2.33 | 9.41 |
| Shared Aid | 7.91 | 8.47 | 9.27 | 14.39 | 12.51 | 12.72 | 14.46 | 17.43 | 13.86 | 15.77 |
| Shared Time Tuition | 0.10 | 0.10 | 0.11 | 0.21 | - | - | - | 0.16 | 0.42 | 0.90 |
| Adults | 0.10 | - | 6.54 | - | - | - | - | - | 5.36 | 7.49 |
| Residents Outside District | | | | | | | | | | |
| Tuition | (16.59) | (20.18) | (27.21) | (24.59) | (35.38) | (33.19) | (27.15) | (26.65) | (20.07) | (20.64) |
| Charter | (443.78) | (430.80) | (442.59) | (428.10) | (433.15) | (398.82) | (414.37) | (406.55) | (172.46) | (168.58) |
| Enrollment Options | (411.11) | (382.28) | (363.27) | (341.11) | (369.75) | (397.26) | (402.28) | (396.31) | (407.63) | (409.49) |
| Total Students Served | 5,655.10 | 5,597.18 | 5,405.23 | 5,451.89 | 5,460.23 | 5,451.31 | 5,476.03 | 5,528.49 | 5,944.11 | 6,025.80 |
| Adjusted Weighted ADM's | 5,596.38 | 5,526.90 | 5,333.73 | 5,378.87 | 5,359.78 | 5,341.13 | 5,336.02 | 5,393.57 | 5,783.83 | 5,853.04 |
| Resident ADM's | 5,319.05 | 5,238.58 | 5,101.45 | 5,104.55 | 5,108.15 | 5,101.53 | 5,121.77 | 5,158.95 | 5,295.49 | 5,355.90 |



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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 POLITICAL SUBDIVISIONS

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, 2011, which collectively comprise Independent School District No. 31, Bemidji, Minnesota’s basic financial statements and have issued our report thereon dated December 27, 2011.

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 Political Subdivisions*, 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards, 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 27, 2011
 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, 2011, which collectively comprise Independent School District No. 31, Bemidji, Minnesota's basic financial statements and have issued our report thereon dated December 27, 2011. 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 27, 2011
Bemidji, Minnesota



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

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

Compliance

We have audited Independent School District No. 31, Bemidji, Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 31, Bemidji, Minnesota's major federal programs for the year ended June 30, 2011. 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, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 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 27, 2011
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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 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 *Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*.
- 5.) An 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 |
| Clustered Programs: | |
| School Breakfast Program | CFDA No. 10.553 |
| National School Lunch Program | CFDA No. 10.555 |
| Summer Food Service Program for Children | CFDA No. 10.559 |
| Title II Part A | CFDA No. 84.367 |
| Education Jobs Fund | CFDA No. 84.410 |
- 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

None

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

Internal Control

None

Questioned Costs

None